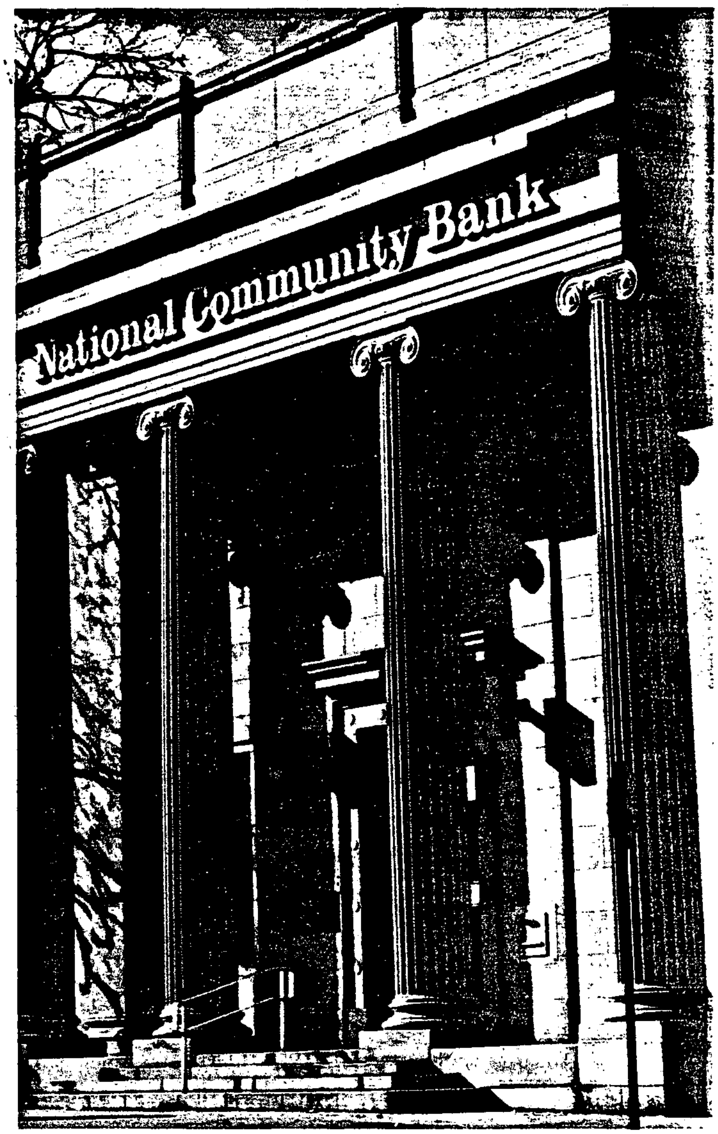
1990 Annual Report



National Community Banks, Inc.

"NEW JERSEY'S BANK"

Corporate Information

Headquarters

National Community Banks, Inc.
113 West Essex Street
Maywood, New Jersey 07607
201-845-1000

Dividend Reinvestment and Stock Purchase Plan

For the convenience of its shareholders, National Community Banks, Inc. offers a Dividend Reinvestment and Stock Purchase Plan. Through the Plan, shareholders may have their quarterly dividends automatically reinvested in additional common shares without brokerage fees, commissions or service charges. Additionally, both current shareholders and non-shareholders may participate in a stock purchase plan either through periodic payments or automatic charge to their National Community Bank account.

Shareholders may join the Plan at anytime and may also withdraw at their discretion. If you are not a participant and would like to receive a prospectus which fully describes the Plan,visit your local branch or write to: Shareholder Relations Department, National Community Banks, Inc. 113 West Essex Street, Maywood, New Jersey 07607.

Corporate Contacts

Financial

Anthony J. Franchina
Executive Vice President and Treasurer
201-845-1250

Shareholder

Ira Geschwint
Executive Vice President
201-845-1212

News Media

Arthur C. Ramirez
First Senior Vice President
201-845-1340

FINANCIAL HIGHLIGHTS

STOCK EXCHANGE LISTING

NASDAQ Over-the-Counter National Market System

STOCK SYMBOL: NCBR

TRANSFER AGENT AND REGISTRAR

The Chase Manhattan Bank, N.A.
1 New York Plaza
New York, N.Y. 10031

MAJOR MARKET MAKERS

Bear Stearns & Co.; Shearson Lehman Hutton Inc.; Keefe, Bruyette & Woods, Inc.; Dean Witter Reynolds, Inc.; Merrill Lynch, Pierce, Fenner ; Fox-Pitt, Kelton, Inc.

ANNUAL MEETING

The Annual Meeting of Shareholders of National Community Banks, Inc. will be held on Tuesday, April 30,1991, at 2:30 P.M. in the Sheraton Meadowlands Hotel, Sheraton Plaza Drive, Two Meadowlands Plaza, East Rutherford, New Jersey. Shareholders are cordially invited to attend.

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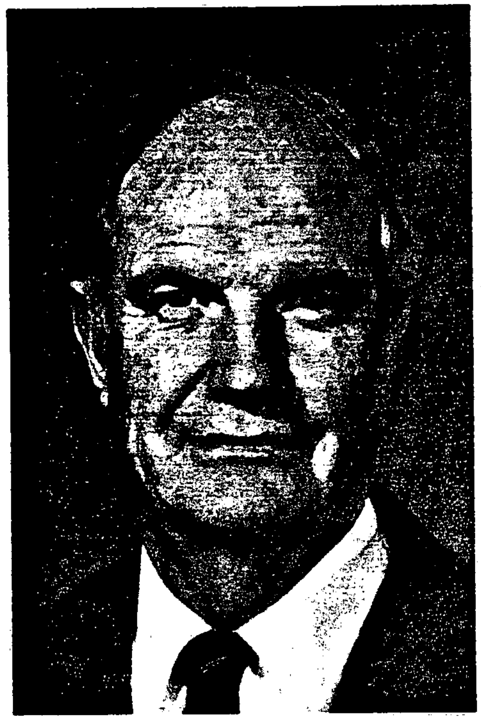


FAIRLEIGH S. DICKINSON, JR.
Chairman of the Board

ROBERT M. KOSSICK
President and Chief Executive Officer

Message to Our Shareholders

Dear Shareholders:

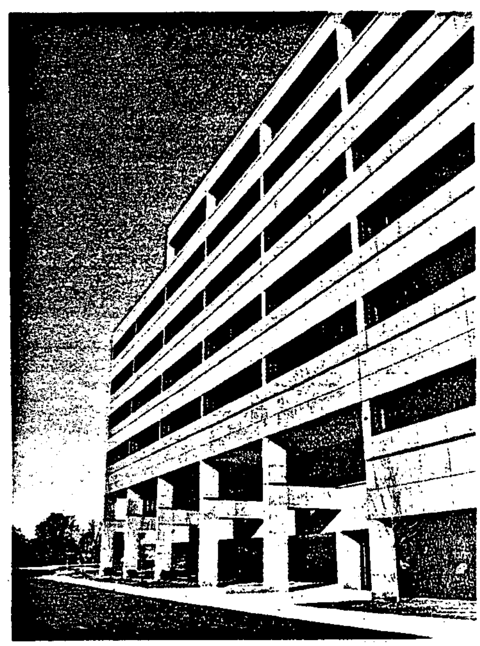
I. INTRODUCTION

1990 was an especially challenging and difficult year for your Bank and the financial industry in general. New Jersey, the Northeast, and most of the country were burdened with deteriorating economic conditions and a severely depressed real estate market. In this vein, NCB experienced significantly higher levels of non-performing loans and, thus, found it prudent to establish extraordinary provisions for the Loan Loss Reserve, which helps protect the Bank against loan losses. These higher special provisions, then, represent the major difference in NCB's 1990 earnings performance versus the previous year. Accordingly, 1990 earnings were $2.42 million or $.23 per share compared with $45.0 million or $4.32 per share for 1989.

Total assets at year-end 1990 were $4.056 billion or 1% above the same period last year while deposits increased 2% to $3.625 billion. Loans totaled $2.902 billion at the end of 1990, a 3% decrease when compared with year-end 1989. These results, when compared with previous years, are reflective of current economic conditions and management's desire to carefully manage the Bank's total asset growth.

Management responded to the 1990 increase in non-performing loans by providing $71.5 million for the Loan Loss Reserve. After net charge-offs and write-downs of $28.8 million, the Loan Loss Reserve at year-end 1990 totaled $74.3 million or 2.56% of total loans as compared with $31.7 million or 1.06% of total loans at year-end 1989.

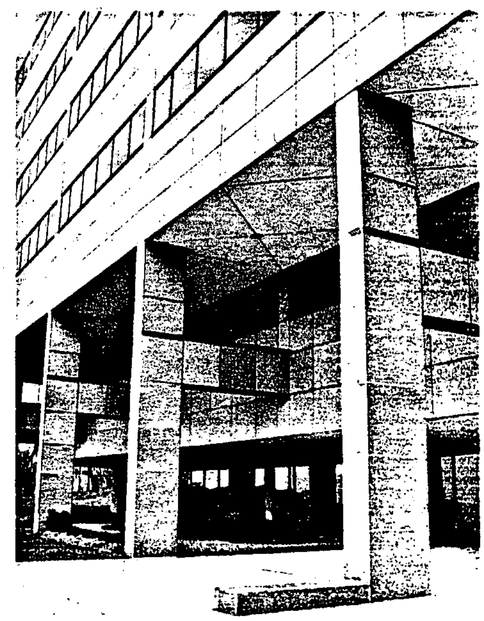
It is important to keep in mind that, despite the trying economic environment and the resultant Bank performance, your Bank possesses noteworthy positive elements and strategic advantages. These include a well-located banking franchise of 115 facilities, an enviable Net-Interest-Margin, a stable and large base of attractive core deposits, satisfactory liquidity, well-controlled operating expenses, and a capital position that meets all regulatory



National Community Bank's new Corporate Headquarters, located atop Garret Mountain in West Paterson, will be ready for occupancy during the second half of 1991.

requirements. As indicated in past years, our loan portfolio does not contain leveraged buyout loans, foreign loans, highly leveraged transactions, or joint development arrangements with real estate developers. Like our deposit base, virtually all of the Bank's loan portfolio is in New Jersey.

II. SHAREHOLDERS' VIEWPOINT



New Jersey bank stocks were negatively impacted in 1990 by the weakness of the national and state economies, declining real estate values, attention brought on by numerous regulatory take-overs of financial institutions, poor earnings reports, and the concerns occasioned by many banks' announcements of dividend reductions or eliminations. NCB's stock opened 1990 at an offered price of $32.00 per share or 148% of book value and closed the year at $15.25 per share or 75% of book value. Book value was $20.39 at year-end 1990 and $21.56 at year-end 1989. We are disappointed by this performance, yet realize: (1) the performance of our stock was consistent with that of most larger banks throughout the nation, and (2) as the year progressed it became clear that we were in a steep recession that affected the securities of financial institutions along with other industries. On the other hand, we anticipate normalization of earnings performance over the years ahead as the economy returns to a sounder footing.

As you recognize, many banks reduced or eliminated dividends in 1990. While NCB's dividend payout currently remains intact, we reiterate, however, that no guaranties can be made in this regard. Our national economy, the currently unstable real estate markets, and the resiliency of New Jersey's economy will strongly influence our loan portfolio, non-performing assets, earnings, capital, and ultimately, dividend policy. Your Board and Management consider dividend payments extremely important and intend to take all reasonable steps to maintain these payments.

III. MANAGEMENT PERSPECTIVE:

NCB's success over the past years is due in large part to the emphasis placed on our well-established, quality-oriented, "local" banking approach provided by a team of dedicated, highly capable banking professionals. This "Community Banking" philosophy consists of high visibility and involvement in the community. Your

Bank's Branches and Regions are responsive, flexible, and provide full service personal banking to our clients.

Moreover, as NCB grew rapidly in both size and complexity during the 1980's, Management deemed it important to take steps to help further assure the Bank's safety and soundness. As a result, a major new unit entitled the Control Group was created within the Bank. Reporting to the Board of Directors, this unit was formed in 1987 to consolidate all elements of control under the direction of Executive Vice President Walter Schlicht, a former 25-year official and senior field examiner retired from the Office of the Comptroller of the Currency. Included in this Group are the following departments; Internal Audit, Security, Compliance, Documentation, Real Estate Appraisal, and Loan Review. Within this overall set of responsibilities, two of the principle facets of control, especially in today's economic environment, are to establish reasonable and timely assessments of the quality of the loan portfolio and to determine the adequacy of the Loan Loss Reserve. Accordingly, the Loan Review Department continually assesses the risk inherent in the Bank's credit relationships, and recommends the appropriate level of Loan Loss Reserves to be maintained. These findings are reported directly to the Board of Directors.

Given the changing nature of the banking industry, non-interest or "fee" income continues to be stressed as a major source of incremental income for your Bank. Recognizing the need in the early 1980's to offset rising costs with new fee producing services, NCB implemented a broad range of product offerings and services to meet the diverse needs of New Jersey's consumers, businesses, and other entities. An important segment of fee income is provided by our <u>Trust Division</u> which has earned a reputation for professional service from a growing list of corporate and individual clients. Moreover, the abundance of New Jersey companies involved in import and export activities has produced excellent growth in fee based earnings by our <u>International Division</u>. In addition, NCB's <u>Financial Services and Correspondent Banking Divisions</u> provide extensive menus of specialized services for corporate clients, governmental units, and financial institutions. We are pleased to note that our roster of retail, corporate, and municipal clients has grown rapidly over the past years as a result of the sophisticated Lock-Box, Group Banking, and Cash Management services offered.

We further emphasize that management has instituted vigorous expense control programs to increase efficiency and enhance earnings. All elements of operating expense are carefully budgeted, monitored, and controlled. Officer salaries were and remain frozen, incentive compensation programs were suspended, advertising and entertainment expenses remain curtailed, and sharp limitations have been placed upon our branch expansion program. Moreover, cooperation of staff in the controlling of expenses has been excellent in that manning levels and overtime have been reduced over the past two years. Accordingly, NCB's "Efficiency Ratio" of Operating Expense minus Fee Income to Average Assets averaged 2.55% for the 1985-1989 years and then improved to 2.47% in 1990. Our goal is to achieve a ratio in the range of 2.20% to 2.40% for 1991 and beyond.

Looking to the years ahead, NCB will remain focused on: (1) classic, traditional commercial banking, (2) enhancing all aspects of the Bank's safety and soundness, (3) stimulating increases in non-interest income through fee-based services and (4) continuing to implement systems and procedures to control costs while improving service.

It also is both timely and relevant to note that today's rapidly changing regulatory, legislative, and competitive environment requires that banks make certain sophisticated adjustments in philosophy, operating methodology, and management skills. We are encouraged by recent media reports indicating that the Treasury Department will propose sweeping legislative changes for the banking industry. Your Board and Management are cognizant of these possibilities and are in the process of developing appropriate strategic plans should some or all of these eventualities occur.

As we move into the decade of the 1990's, a continuing vital aspect of your institution's management infrastructure is the hard work and dedication exhibited by our conscientious and active Board of Directors. In this regard, NCB's Directors, through specific Board Committees, play an active part in our final decision- making process. These committees include:

• *Audit Committee*

The Audit Committee, chaired by Frank W. Hamilton, Jr., is responsible for: (1) monitoring the activities of the Internal Audit Department as it conducts examinations of the Bank's various departments and branches in order to ensure that we are operating in accordance with prescribed policies and procedures and (2) assuring that adequate controls exist to monitor the soundness of the Bank's assets and the extent of liabilities. In addition, the Committee, in conjunction with Executive Management and the Bank's external accountants and auditors, reviews the Bank's financial reports, adequacy of controls, and compliance with requirements of Regulatory Authorities.

- *Executive Committee*

Under the direction of Vice Chairman Henry P. Becton, this important Committee reviews a broad range of strategic issues prior to submission to the Board. These include proposed mergers and acquisitions, review of the Bank's Strategic Operating Plan and Budget, and review of operating results.

- *Executive Compensation & Management Succession Committee*

Under the leadership of Vice Chairman John Sullivan, this Committee oversees compensation programs for Executive and Senior Management and ensures that a plan exists for management succession at all levels of the organization.

- *Retirement and Benefits Committee*

This active committee, chaired by Katharine L. Auchincloss, is responsible for the Bank's Employee Retirement and Savings Incentive Plans in terms of soundness, adequacy, substance, and compliance with ERISA and other relevant provisions of law.

- *Trust Committee*

This Committee, under the direction of Horace C. Ramsperger, ensures the proper exercise of the Bank's Fiduciary Powers. Responsibilities also include the monitoring of the direction and actions of all officers, employees and committees utilized by the Bank in the exercise of these powers.

- *Building Committee*

This committee, chaired by Joseph L. Muscarelle, oversees the acquisition and building programs associated with the Bank's physical facilities.

• *Loan and Investment Committee*
Under the direction of Alvan B. Fehn, this Committee has the authority to review and approve the Bank's credit policy, loans over certain dollar limits, investments, and other forms of credit transactions. The Committee, however, has no authority to approve loans or extensions of credit directly or indirectly to Directors and Executive Officers. Such approval must come from the full Board.

We are currently in the process of fitting up our new Garret Mountain headquarters building, purchased in 1990. This facility is important to future operations in that it allows NCB to assemble its key staff in one centralized location and cease operating in a fragmented, dispersed fashion. The operating costs of the new structure are projected to be less than the present occupancy costs of the rental space we are vacating and future efficiency is enhanced in that the building increases NCB's operating space by more than 40%.

It is emphasized that Management foresees significant opportunities for your Bank. As the economy rebounds and the Loan Loss Provision returns to a more normal level, earnings should improve. Since the strongest and best banks will survive, opportunities may arise for your Bank to reap the benefits of future mergers or acquisitions. NCB fully intends to be a survivor and, thus, be positioned to build the future size and value of its franchise.

IV. SUMMARY

Your Bank's focus will be on asset quality, capital adequacy, Loan Loss Reserve adequacy, and controlled growth of assets and operating expenses. We will carefully examine all opportunities to grow, including, via mergers and acquisitions. As the economy rebounds, NCB will again consider potential sites for new or "De-Novo branches" which help fill voids in our trading areas. We expect to be properly positioned when a favorable market for bank expansion returns.

We encourage you to attend the Annual Meeting of Shareholders, 2:30 p.m., April 30, 1991 at the Sheraton Meadowlands, located off Route 3 in East Rutherford. This meeting provides the opportunity to meet management, ask questions, and voice your opinion.

Your Board of Directors, Officers and Staff appreciate and value the support and understanding of our shareholders and clients in these challenging times. We are confident of our ability to navigate the rough waters anticipated in 1991 and remain optimistic regarding the Bank's future prospects.

Best regards,

Fairleigh S. Dickinson, Jr.

Fairleigh S. Dickinson, Jr.
Chairman of the Board

Robert M. Kossick

Robert M. Kossick
President and
Chief Executive Officer

ROBERT M. KOSSICK
President and Chief Executive Officer

JAMES PETERS
Senior Executive Vice President and
Chief Operating Officer

KENNETH J. HOLCK
Senior Executive Vice President and
Senior Administrative Officer

of the Holding Company National Community Banks, Inc.

FAIRLEIGH S. DICKINSON, JR.
...man of the Board

HENRY P. BECTON
...Chairman of the Board

JOHN J. SULLIVAN
...Chairman of the Board

ROBERT M. KOSSICK
...ent and Chief Executive

JAMES PETERS
Senior Executive Vice President and
Chief Operating Officer

KENNETH J. HOLCK
Senior Executive Vice President and
Senior Administrative Officer

ANTHONY J. FRANCHINA
Executive Vice President, Secretary
and Treasurer

of the Holding Company National Community Banks, Inc.

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...N.J.

HENRY P. BECTON
...Chairman of the Board
...Emeritus
...Dickinson & Co.

GEORGE S. CALLAS
...
...Business Development Corp.
...Township, N.J.

FAIRLEIGH S. DICKINSON, JR.
...man of the Board

RAYMOND V. GILMARTIN
...and C.E.O.
...Dickinson & Co.
...Lakes, N.J.

FRANK W. HAMILTON, JR.
...
...man of the Board
...Industries
...N.J.

THEODORE F. HOLBERT
...Vice President

KENNETH J. HOLCK
...Executive Vice President and
...Administrative Officer

ROBERT M. KOSSICK
President and Chief Executive Officer

JOHN JAY MANGINI
Attorney-at-Law
Manasquan, N.J.

JOSEPH L. MUSCARELLE, JR.
President
Jos. L. Muscarelle, Inc.
Maywood, N.J.

JAMES PETERS
Senior Executive Vice President and
Chief Operating Officer

HORACE C. RAMSPERGER
Teaneck, N.J.

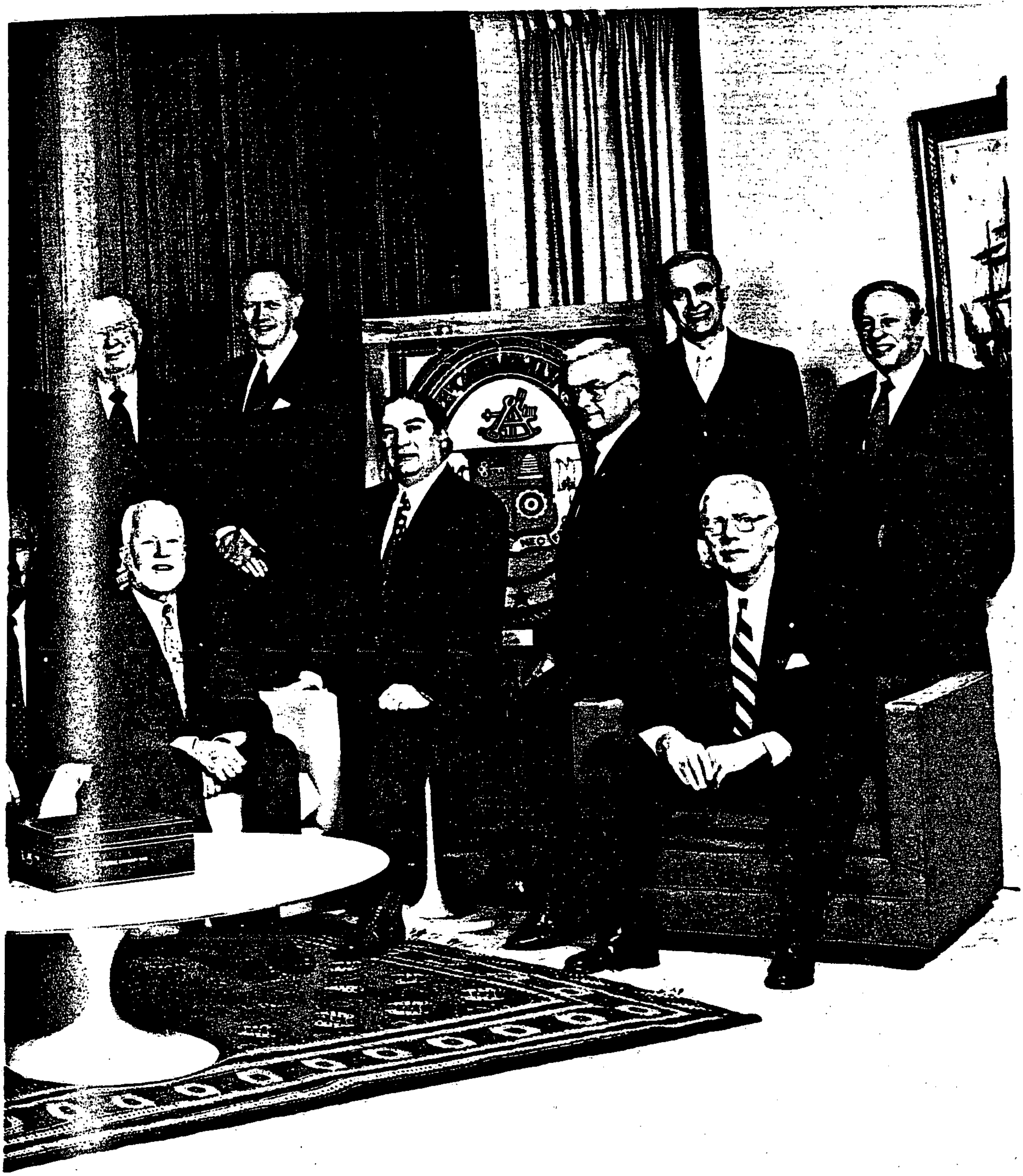
LAMBERT A. ROSE
Wayne, N.J.

PAUL SCHMIDT
President
Romany Corporation
Hackensack, N.J.

EMIL W. SOLIMINE
President and Chief Executive Officer
Emar, Ltd., Inc.
Livingston, N.J.

JOHN J. SULLIVAN
Vice Chairman of the Board
Attorney-at-Law
Ridgewood, N.J.

(Seated, left to right) Lambert A. Rose, Katharine L. Auchincloss, John J. Sullivan, Robert M. Kossick, Fairleigh S. Dickinson Jr., Henry P. Becton, Emil W. Solimine, James Peters, and Kenneth J. Holck



(Standing, left to right) Frank W. Hamilton, Jr., Theodore F. Holbert, Horace C. Ramsperger, Joseph L. Muscarelle, Jr., John Jay Mangini, Alvan B. Fehn, Paul Schmidt, George S. Callas, and Raymond V. Gilmartin

Officers of National Community Bank

ROBERT M. KOSSICK
President and
Chief Executive Officer

IRA GESCHWINT
Executive Vice President
Chief of Staff/Investor Relations

ADMINISTRATION/OPERATIONS GROUP

KENNETH J. HOLCK
Senior Executive Vice President and
Senior Administrative Officer
Administration/Operations Group
Manager

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First Senior Vice President

Joseph M. Berardo
Senior Vice President
Human Resources

Operations

STEVEN B. EICHHORN
First Senior Vice President

Lester Walsh
Senior Vice President
Operation Services

Lawrence Forrest
Senior Vice President
Information Services

Victor Hermey
Senior Vice President
Loan Operations

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First Senior Vice President
Business Development Group
Manager

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Executive Vice President
Control Group Manager

Elmer E. Bush, Jr.
First Senior Vice President
Real Estate Appraisal

Peter Sellix
Senior Vice Presdent
Loan Review

Michael Matossian, CPA
First Vice President
Chief Auditor

FINANCIAL GROUP

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Executive Vice President,
Comptroller and Cashier
Financial Group Manager

Anthony M. Pilipie, CPA
Senior Vice President
Financial Group Deputy Manager

BANKING GROUP

JAMES PETERS
Senior Executive Vice President and
Chief Operating Officer
Banking Group Manager

Retail/Fee Based

JAMES M. DAVIDSON
Executive Vice President
Retail/Fee Based Group Manager

Edward M. Katz
Senior Vice President
Trust

Nancy Altbrandt
Senior Vice President
Financial Services

Fred Kowal
Senior Vice President
Correspondent Banking

Lending

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Executive Vice President
Senior Lending Officer

WAYNE COURTRIGHT
First Senior Vice President
Chief of Staff

Michael Paolercio
First Senior Vice President
Senior Commercial Lending Officer

Robert Wallace
First Senior Vice President
Senior Real Estate Lending Officer

Robert J. Abate
Senior Vice President
Consumer Lending

Michael Ferrara
Senior Vice President
Special Assets

Ronald Prunesti
First Vice President
International Lending

Regional Banking

PATRICK W. THALLER
Executive Vice President
Regional Banking Manager

ARTHUR C. RAMIREZ
First Senior Vice President
Chief of Staff

JEFFREY S. MCLAREN
Senior Vice President
Zone Manager
Bergen, Hudson, Passaic Counties

Regional Senior Officers

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Senior Vice President
Hudson County Branches

Thomas Casey
Senior Vice President
Southern Bergen Branches

Richard Cavaliero
Senior Vice President
N.E. Bergen Branches

Stephen Necel
First Vice President
N.W. Bergen Branches

LOUIS B. LOMBARDI
First Senior Vice President
Zone Manager
Passaic, Morris, Sussex, Warren,
Essex Counties

Regional Senior Officers

Michael Aiello
First Vice President
Passaic, E.Morris, Essex Branches

Ronald Dolfi
Senior Vice President
Sussex, W.Morris, Warren Branches

CARL F. CHIRICO
First Senior Vice President
Zone Manager
Ocean, Middlesex, Monmouth,
Mercer, Somerset, Atlantic Counties

Regional Senior Officers

Kevin Corcoran
First Vice President
Middlesex Branches

Greg Faljean
First Vice President
Monmouth, Ocean Branches

Thomas Cakert
Senior Vice President
Atlantic Branches

Merrill Howe
Vice President
Mercer, Somerset Branches

Regional Directors

Region 1

JOSEPH A. BALDOMERO, JR.
CPA
Union City, N.J.

EUGENE R. BOFFA
Esquire
Jersey City, N.J.

PAUL V. CAVALLI, M.D.
President
Meadowlands Hospital Medical Center
Secaucus, N.J.

GENE HELLER
President
Hartz Mountain Industries, Inc.
Secaucus, N.J.

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Esquire
Gillespie, Gillespie & Jablonski
Kearny, N.J.

JOSEPH MANGINO
President
Metropolitan Trucking
Fairview, N.J.

Region 2

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Bergen County Freeholder
Rutherford, N.J.

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Executive Vice President
Hudson County News Company
North Bergen, N.J.

KATHLEEN DONOVAN
Esquire
Lyndhurst, N.J.

JAMES S. ELY
Esquire
Smith & Ely, P.A.
Rutherford, N.J.

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Passaic, N.J.

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Esquire
Chase & Chase
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Pisarri, Mulligan, Mc Enroe et. al
Hackensack, N.J.

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Oradell, N.J.

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Haro Management
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PAUL RAMSPERGER
Washington Township, N.J.

Region 4

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Conte, Clayton & Conte, Esquires
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Cliffside Park, N.J.

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Ridgewood, N.J.

JACOB GOLDMAN
President
Farmland Dairies
Wallington, N.J.

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Midland Park, N.J.

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Esquire
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Pompton Lakes, N.J.

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L&M Laplace
Elmwood Park, N.J.

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Fair Lawn, N.J.

CARL B. NEVOSO
CPA (Partner)
Dorfman.Goldman, Herman, Nevoso,
Stobezki, and Pivirotto
Glen Rock, N.J.

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Ramsey, N.J.

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President
New England Motor Freight, Inc.
Elizabeth, N.J.

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President
Shotmeyer Bros., Inc.
Hawthorne, N.J.

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Sullivan & Sullivan
Ridgewood, N.J.

EDWARD J. TRAWINSKI
Esquire
Fair Lawn, N.J.

Region 5

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Vice President/Rates, Materials & Services
Jersey Central Power & Light
Morristown, N.J.

ALVIN M. GARLAND
CPA
Fairfield, N.J.

DANIEL GEBEL
Partner
Carson & Gebel Ribbon Co.
Dover, N.J.

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Rockaway, N.J.

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President
Advanced Environmental
Technology Corp.
Flanders, N.J.

ROBERT PETTIT
Oak Ridge, N.J.

DONALD SAVAGE
Manager
USF&G
Livingston, N.J.

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Vice Chairman & Chief Financial Officer
The Mennen Company
Morristown, N.J.

JAMES YOUNGELSON
Attorney at Law
Youngelson & Murray
Mendham, N.J.

Region 6

WARREN BALDWIN
President
Sussex County Board of
Agriculture
Sussex, N.J.

JOEL KOBERT
Esquire
Courter, Kobert, Laufer, Purcell & Cohen
Hackettstown, N.J.

BRYAN LEWIS
Vice President Service & Finance
M&M Mars, Inc.
Hackettstown, N.J.

PHILIP PLATANIA
President & CEO
Andmore Sportswear Corp.
Port Jervis, N.Y.

DON RICHARD
West Orange, N.J.

ROY G. ROHEL
President
Tri States Tru Value, Inc.
Sussex, N.J.

ROBERT C. SHELTON
Franklin, N.J.

F. JAY SINGLETON
President
Vicrtex, Inc.
Wharton, N.J.

Region 7

CASPER P. BOEHM, JR.
Esquire
Sayreville, N.J.

OMAR BORAIE
President
American Middle-East Marketing Co.
New Brunswick, N.J.

ROBERT G. GOODMAN
Esquire
Palmisano and Goodman, PA
Woodbridge, N.J.

RICHARD T. GOULD
Holmes Dictograph
Consultant
Edison, N.J.

FRED KIESER, Jr.
Esquire
Metuchen, N.J.

EDWARD LUBOWICKI, Sr.
President
Lubowicki Insurance Agency
Metuchen, N.J.

DIEGO VISCEGLIA
President
Summit Associates, Inc.
Edison, N.J.

Region 8

JAMES F. DOUGHERTY, M.D.
Sea Girt, N.J.

M. CLAIRE FRENCH
Chairman Monmouth County
Improvement Authority
Neptune, N.J.

BYRON KOTZAS
President
Crossroads Realty
Toms River, N.J.

JOEL R. OPPENHEIM
Manchester Township Public Schools
Whiting, N.J.

GEORGE C. PAPPAS
Esquire
Spring Lake, N.J.

H. SHERMAN RUSSELL
President
Lakewood Auto Supply, Inc.
Lakewood, N.J.

MICHAEL SCHOTTLAND
Esquire
Freehold, N.J.

JOHN W. WELCH
President
York-Jersey Underwriters, Inc.
Tinton Falls, N.J.

WILLIAM C. WINDER
President
Win-Tron Electronics, Inc.
Spring Lake Heights, N.J.

NESTOR WINTERS
Esquire
Bradley Beach, N.J.

Region 9

CARMEN A. BARONE
CPA
Northfield, N.J.

HOWARD L. GREEN
President
South Jersey Radio, Inc.
Linwood, N.J.

GARY R. HAND
Executive Vice President
Bayada Nurses, Inc.
Northfield, N.J.

RICHARD L. OKONOW
Hotel/Motel Consultant
Real Estate Developer
Atlantic City, N.J.

SAM SCHOFFER
Real Estate Developer
Pleasantville, N.J.

FRANK J. SIRACUSA
President
Frank J. Siracusa and Son
Atlantic City, N.J.

R.C. WESTMORELAND
Esquire
McAllister, Westmoreland, Vesper & Schwartz
West Atlantic City, N.J.

Region 10

MICHAEL T. HARTSOUGH
Esquire
Hartsough, Kenny & Innes
Princeton, N.J.

JOSEPH R. RIDOLFI
Senior Executive Assistant
N.J. Dept. of Commerce, Energy & Economic Development
Trenton, N.J.

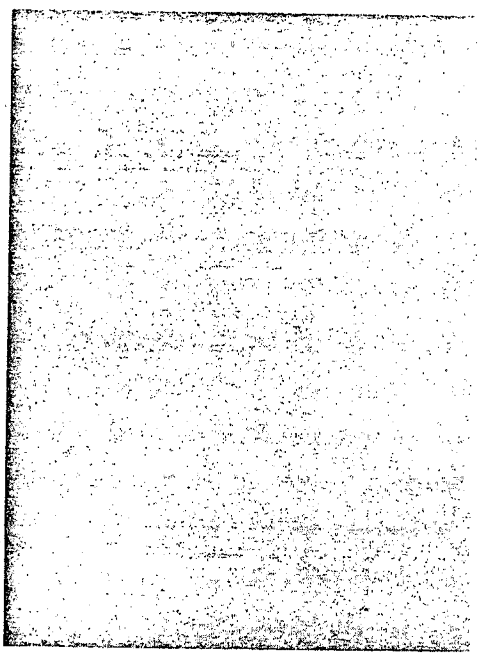
ALLEN M. SILK
Esquire
Stark and Stark
Princeton, N.J.

DONALD J. LOFF
Senior V.P.
Paine-Webber
Princeton, N.J.

Customer Showcase

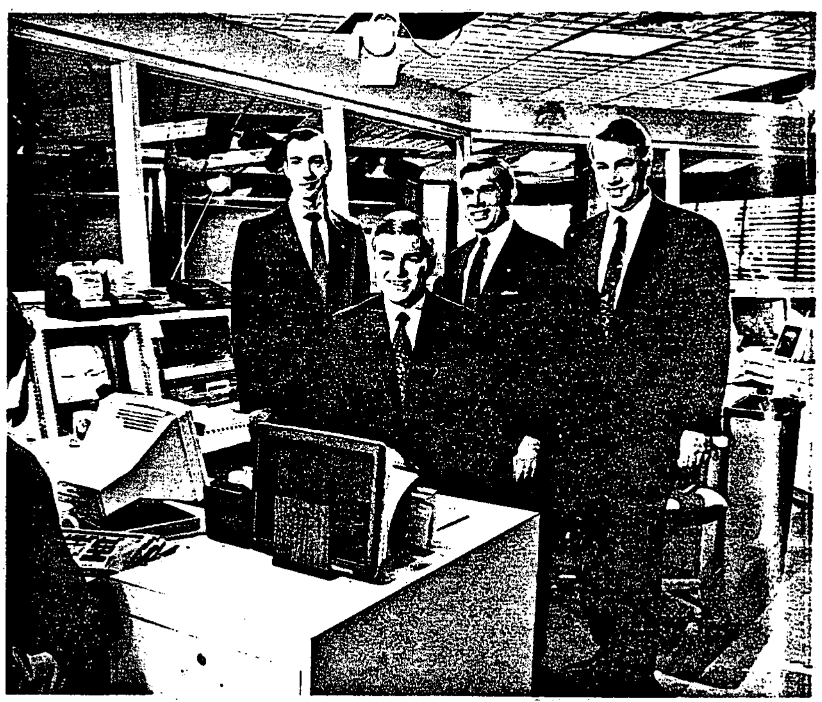
"NCB's success over the past years is due in large part to the emphasis placed on our well-established, quality-oriented, 'local' banking approach"...

On the following pages, we are pleased to highlight several customers who are representative of the tens of thousands of local, small and middle market companies throughout New Jersey, being served by National Community Bank.

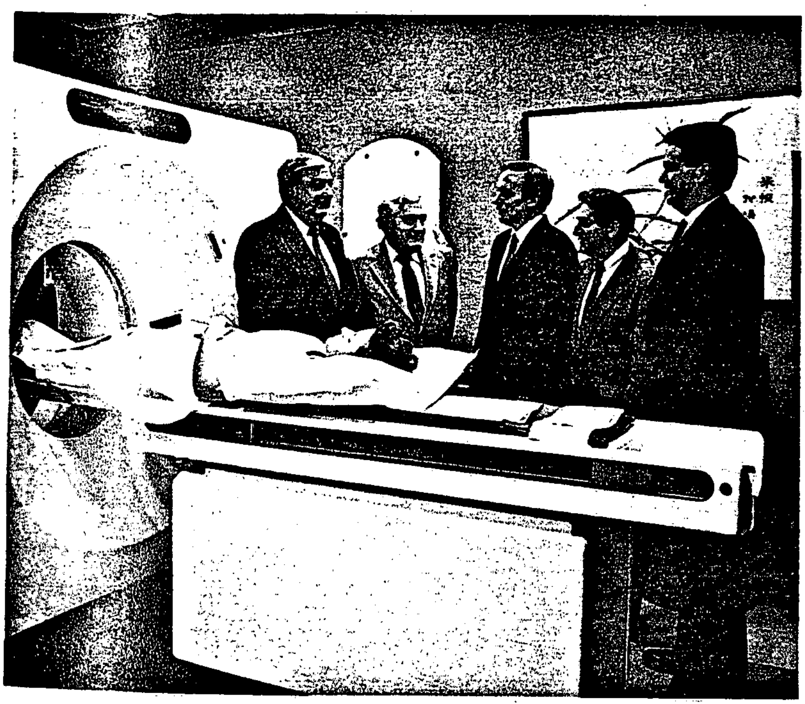


Sills Cummis Zuckerman Radin Tischman Epstein & Gross, P.A., a law firm headquartered in Newark, Essex County, also has offices in Princeton, Hackensack, Atlantic City and New York City. Senior Partner Clive Cummis (seated at desk) chats with NCB executives (left to right): William E. Best, Newark Branch Manager; Jeffrey J. Buonforte, Senior Regional Officer; and John W. Klos, Business Development Officer.

WWOR-TV Channel 9, located in Secaucus, Hudson County, is an independent commercial television station. Flanking WWOR-TV Anchorman Rolland Smith are (left to right): Richard Abbate, Senior Business Development Officer and Jeffrey J. Buonforte, Senior Regional Officer, both of National Community Bank; and Michael B. Alexander, General Manager of WWOR-TV.



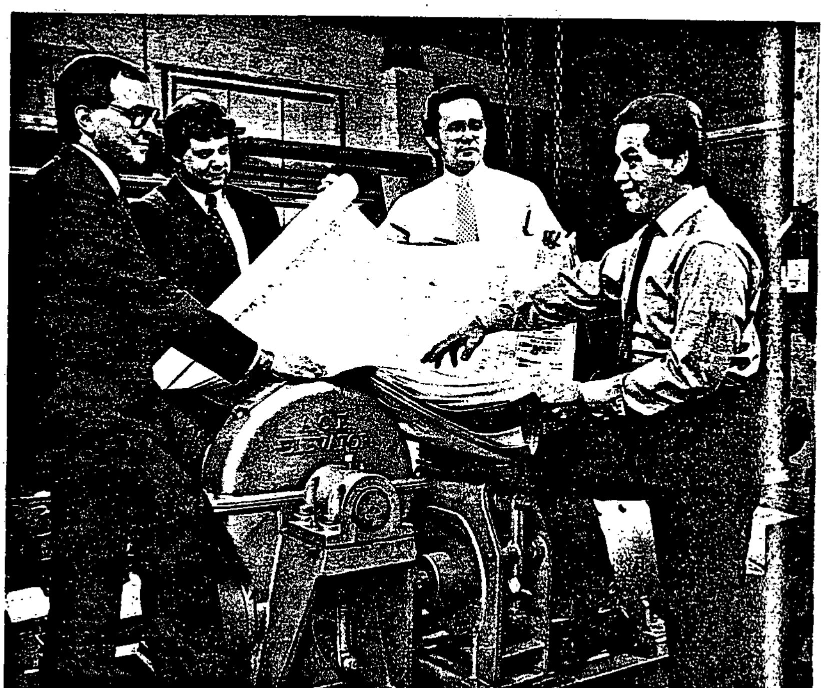
Troll Associates, Inc., located in Mahwah, Bergen County, publishes, produces and distributes children's books and other educational materials. Pictured (left to right) are: Bill Gross, the firm's Chief Financial Officer, with NCB executives Steve Necel, Senior Regional Officer and Jeffrey S. McLaren, Senior Zone Officer.

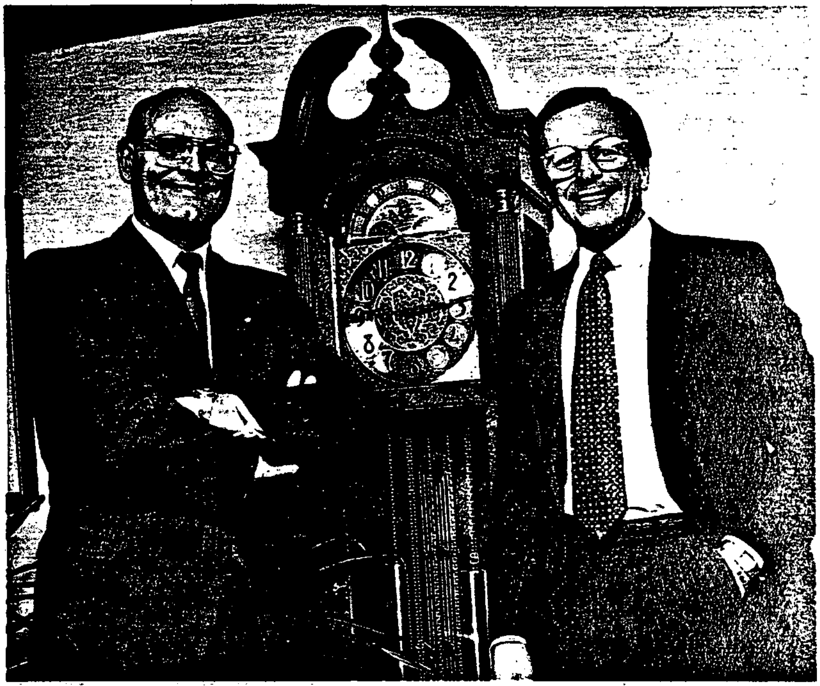


Palisade General Hospital is a health care facility located in North Bergen, Hudson County. Pictured (left to right) are: Thomas Casey, Senior Regional Officer, National Community Bank; Joseph Romano, the hospital's Chairman of the Board; William Friedman, President of the hospital; John Morro, CPA, the hospital's Financial Consultant; and William Clement, Vice President, National Community Bank.

Gemini Plastics Film Corp., a manufacturer of plastic bags for commercial use, is located in Garfield, Bergen County. Pictured are the firm's President, Andy Del Presto, with NCB Senior Regional Officer, Thomas Casey.

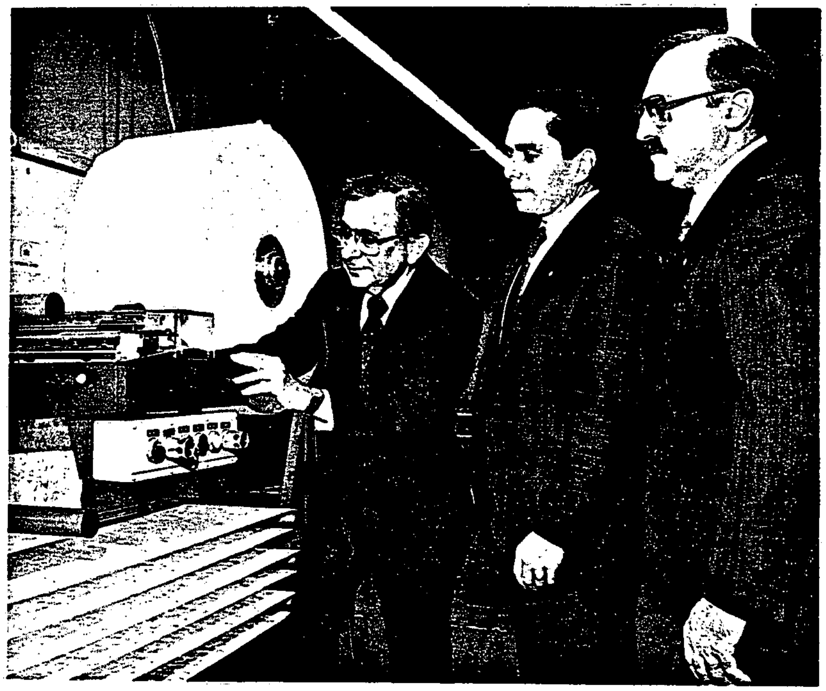
Ace Elevator, Inc., an elevator installation and service contractor, is located in Palisades Park, Bergen County. Pictured (left to right) are: Richard Cavaliero, Senior Regional Officer and J. Gregory Mader, Branch Manager, both of National Community Bank, with Robert Baamonde, Vice President, Secretary/Treasurer of Ace, and Ronald Baamonde, the firm's President.





JFK Health Systems, Inc., a hospital and research facility, is located in Edison, Middlesex County. Pictured are Carl F. Chirico, National Community Bank's Senior Zone Officer, with Michael T. Kornett, President and Chief Executive Officer of JFK Health Systems, Inc.

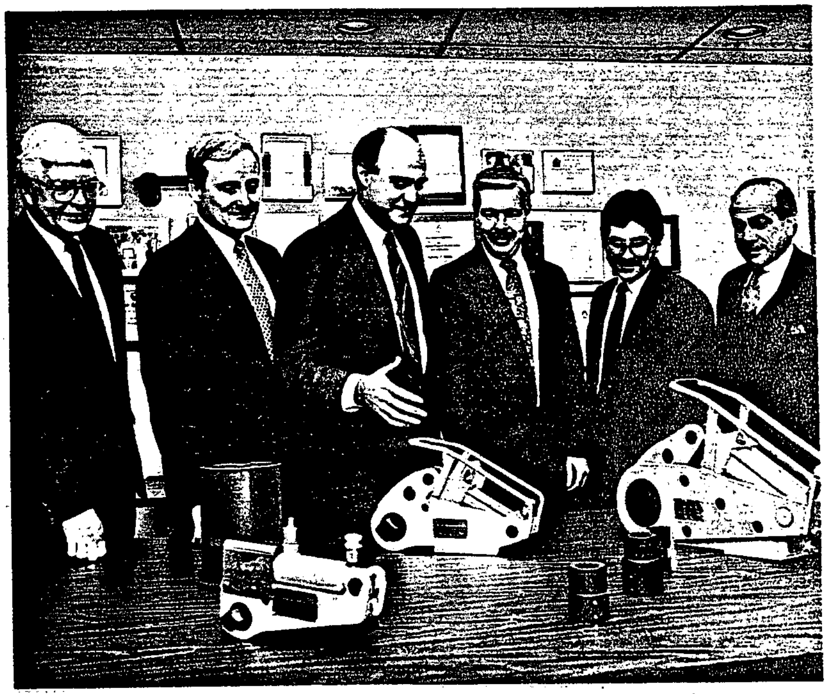
Advanced Environmental Technology Corp. (A.E.T.C.), a leader in the hazardous waste management field, is located in Flanders, Morris County. Pictured left to right are: Robert W. Landmesser, President of A.E.T.C., with NCB executives Louis B. Lombardi, Senior Zone Officer and Ronald Dolfi, Senior Regional Officer.



Compensating Tension Controls, Inc., a manufacturer of equipment utilized for automatic web splicers and constant tension unwind and rewind equipment, is located in West Caldwell, Essex County. Pictured (left to right): Erwin L. Herbert, President of the firm, with NCB executives Michael P. Aiello, Senior Regional Officer and Michael A. Pacio, Jr., Roseland Branch Manager.

Cerberus Pyrotronics, a designer and manufacturer of integrated fire and smoke detection systems for business and industry, is located in Cedar Knolls, Morris County. Pictured (left to right): Ronald C. Matson, President of Cerberus Pyrotronics; Louis B. Lombardi, Senior Zone Officer of National Community Bank; and Larry Willson, Business Development Officer, National Community Bank.

Ferrulmatic, Inc., a manufacturer of high precision stainless steel parts and a full line of hydraulic tools for the construction industry, is located in Totowa, Passaic County. Pictured (left to right): Jack Fetrow, Marketing, Ferrulmatic, Inc.; Joseph C. Critchley, Senior Vice President, National Community Bank; Ferrulmatic, Inc. executives Anthony R. Fabiano, President; Ken Breur, Vice President-Operations; Eugene R. Reda, Vice President, Quality Development and Administration; and National Community Bank Senior Zone Officer, Louis B. Lombardi.

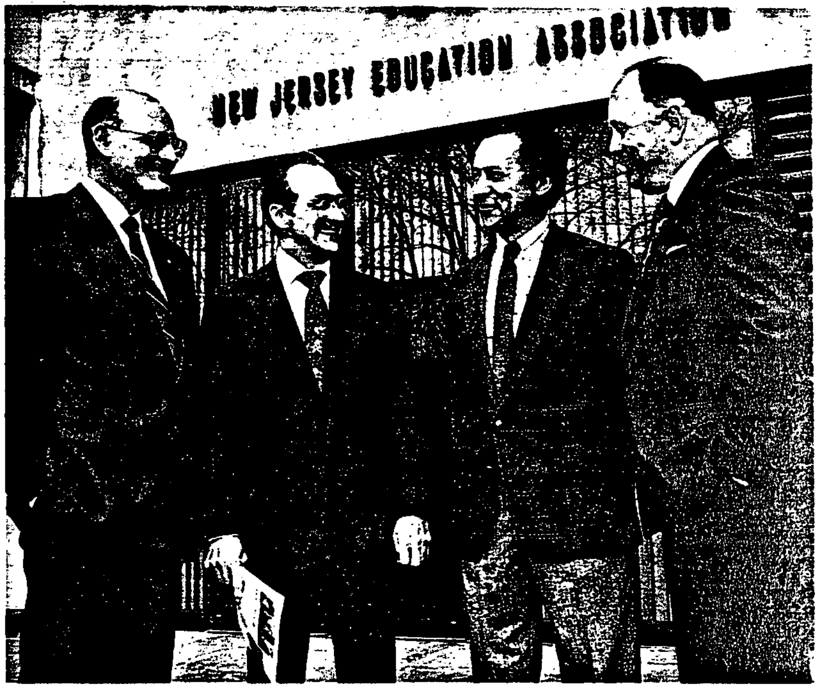


Frank J. Siracusa & Son, an insurance agency offering all forms of coverage, specializing in employee benefits and self insurance administration, and serving residents and business in New Jersey for more than 35 years, is located in Atlantic City, Atlantic County. Pictured are Frank J. Siracusa, President of the firm with Thomas F.X. Cakert, Senior Regional Officer of National Community Bank.

Stephen Gould Corp., a family-owned leader in the service and design of packaging systems for industrial, electronic and consumer markets utilizing paper materials, foams and plastics, is located in Whippany, Morris County. Michael F. Golden, the firm's President and Chief Executive Officer is pictured second from left, flanked by (left to right) Dale T. Golden, Peter Van Slyke, and John Golden, all Vice Presidents of the firm, and NCB executives Louis B. Lombardi, Senior Zone Officer; Michael P. Aiello, Senior Regional Officer; and Joseph J. Critchley, Senior Vice President.

Mon-Oc Federal Credit Union is located in Neptune, Monmouth County. Pictured (left to right) are: Gregory Faljean, National Community Bank's Senior Regional Officer; L. Edward Brzozowski, President of the Mon-Oc Federal Credit Union, and Carl F. Chirico, NCB Senior Zone Officer.

New Jersey Education Association is located in Trenton, Mercer County. Pictured (left to right): Carl F. Chirico, National Community Bank's Senior Zone Officer; Dr. James A. Connerton, Executive Director, NJEA; Cary Pittman, the Association's Director of Business; and Merrill Howe, NCB Senior Regional Officer.



LOCAL PEOPLE
LOCAL DECISIONS
LOCAL BANKING

Community Banking As It Used To Be

Branch Listing

Serving thirteen counties throughout New Jersey

ATLANTIC COUNTY

Atlantic City
Atlantic & Arkansas Avenues
(609) 345-8272

Brigantine
3900 Atlantic/Brigantine Boulevard
(609) 266-2100

Linwood *
Maple Avenue & New Road
(609) 927-9191

Mays Landing
One Route 50
(609) 625-9152

Northfield
Mainland Plaza
501 Tilton Road
(609) 645-3200

Somers Point
New Road & Rhode Island Avenue
(609) 653-8200

BERGEN COUNTY

Carlstadt
321 Hackensack Street
(201) 933-3944

650 Washington Avenue
(201) 939-4259

East Rutherford
Hackensack Street & Paterson Plank Road
(201) 939-4133

Edgewater
725 River Road
(201) 941-5444

Elmwood Park
Market Street & Van Riper Avenue
(201) 791-5112

Englewood *
50 Grand Avenue
(201) 568-7143

Fair Lawn *
Fair Lawn Avenue & River Road
(201) 796-2471

Broadway & 27th Street
(201) 791-5143

Fair Lawn Ave. at R.R.(Radburn)
(201) 794-1370

Saddle River Road & Prospect Avenue
(201) 791-5130

Garfield
136 Passaic Street
(201) 473-2242

Hackensack
Main & Atlantic Streets
(201) 342-4638

505 Main Street
(201) 487-0674

Lodi
Essex Street Office
370 Essex Street
(201) 845-1190

Lyndhurst
Ridge Road & Valley Brook Avenue
(201) 933-1080

Stuyvesant & Park Avenues
(201) 939-4035

51 Polito Avenue
(201) 939-6144

Midland Park
129 Godwin Avenue
(201) 652-7113

North Arlington
23 Ridge Road
(201) 991-8877

Ridge Road & Bergen Avenue
(201) 998-2533

Norwood
588 Broadway
(201) 768-1708

Oakland
345 Ramapo Valley Road
(201)337-4125

Oradell
296 Kinderkamack Road
(201) 599-2197

Ramsey
545 Island Road
(201) 818-8822

Ridgefield
Broad Avenue at Traffic Circle
(201) 945-1536

504 Bergen Boulevard
(201) 945-6909

Ridgewood *
25 West Ridgewood Avenue
(201) 445-6475

67 Godwin Avenue
(201) 845-1560

Rutherford *
24 Park Avenue
(201) 939-2450

19 Ames Avenue
(201) 845-1025

Union Avenue & Wells Place
(201) 933-8289

Saddle Brook
289 Market Street
(201) 845-8655

South Hackensack
600 Huyler Street
(201) 641-7777

Teaneck
170 The Plaza
(201) 837-9372

205 Cedar Lane
(201) 836-7626

Wallington
Main & Halstead Avenues
(201) 471-8838

Paterson & Mt. Pleasant Avenues
(201) 939-2179

* *Regional Headquarters*

ESSEX COUNTY

Fairfield
387 Passaic Avenue
(201) 882-9604

Millburn
281 Millburn Avenue
(201) 376-8717

Roseland
28 Eisenhower Parkway
(201) 403-0157

Verona
30 Pompton Avenue
(201) 857-8833

West Caldwell
555 Passaic Avenue
(201) 227-2765

Newark
1 Riverfront Plaza
The Legal Center
(201) 824-4422

HUDSON COUNTY

Jersey City
Journal Square Plaza II
(201) 659-6112

Kearny
11 Kearny Avenue
(201) 991-6663

Secaucus
1 Harmon Plaza
(201) 348-3434

333 Meadowlands Parkway
(201) 864-4082

Regional Headquarters *
400 Plaza Drive
(201) 845-1687

450 Plaza Drive
(201) 348-9204

700 Plaza Drive
(201)330-0083

Mall at Mill Creek, Rte. 3
(201) 348-3104

Union City
Kennedy Center
3196 Kennedy Boulevard
(201) 864-1924

Weehawken
1200 Harbor Boulevard
(201)393-0060

MERCER COUNTY

Ewing
1660 N. Olden Avenue
(609) 530-9653

Hamilton
411 Route 33
(609) 890-7447

Princeton
3535 Route 1
(609) 734-9201

Trenton *
226 S. Broad Street
(609) 392-3300

SOMERSET COUNTY

Rocky Hill
(Princeton)
1185 Route 206
(609) 497-0500

* *Regional Headquarters*

MIDDLESEX COUNTY

Edison *
Durham Center
4 Ethel Street
(908) 287-4111

Raritan Center
Raritan Plaza I
(908) 225-7926

Metuchen
475 Main Street
(908) 906-3535

New Brunswick
24 Livingston Avenue
(908) 249-8000

Old Bridge
Browntown Shopping Center
Route 516
(908) 679-1300

Plainsboro
(Princeton)
Forrestal Village
Route 1 & College Road
(609) 987-8809

Woodbridge
481 Blair Road
(908) 815-9780

MONMOUTH COUNTY

Bradley Beach
500 Main Street
(908) 774-5300

Freehold
61 W. Main Street
(908) 577-0800

Long Branch
112 Brighton Avenue
(908) 571-1800

Shrewsbury
1150 Broad Street
(908) 542-8980

Spring Lake
Third & Washington Avenues
(908) 449-0888

Wall Township
Allaire Airport
(908) 938-9090

Route 35 & Lakewood Road *
(908) 528-9100

Route 138 & New Bedford Road
(908) 681-0113

MORRIS COUNTY

Boonton
100 Monroe Street
(201) 335-6220

Dover
1E. Clinton Street
(201) 366-2000

East Hanover
Ridgedale & Garfield Avenues
(201) 386-0100

Florham Park
77 Hanover Road
(201) 966-6131

Jefferson Township
Lakeside Shopping Center
(201) 663-0010

Mount Freedom
Sussex Turnpike & Millbrook Avenue
(201) 895-3666

Parsippany
1719A Route 10
(201) 285-1840

Randolph
Route 10 at Dover Chester Road
(201) 366-3510

Riverdale
20 Hamburg Turnpike
(201) 839-2900

Rockaway Township
18 Green Pond Road
(201) 625-4646

Roxbury
1250 Route 46
(201) 927-5860

Stirling/Passaic
1300 Valley Road
(908) 647-5000

Victory Gardens
308 S. Salem Street
(201) 366-7423

Wharton
20 N. Main Street
(201) 366-6900

OCEAN COUNTY

Lakewood
75 E. Kennedy Boulevard
(908) 370-9020

Toms River
24 Main Street
(908) 349-8690

PASSAIC COUNTY

Clifton
963 Van Houten Avenue
(201) 365-4088

Haledon
438 Haledon Avenue
(201) 956-1946

Pompton Lakes
413 Wanaque Avenue
(201) 839-2020

Totowa
999 Riverview Drive
(201) 890-1584

* *Regional Headquarters*

SUSSEX COUNTY

Andover Township
241 Newton-Sparta Road
(201) 383-3434

Franklin
300 Route 23
(201) 827-9181

Hampton Township *
120 Hampton House Road
(201) 383-6434

Montague
Tri-State Shopping Center
(201) 293-3438

Sparta
Theatre Shopping Center
(201) 729-9101

Sussex
59 Main Street
(201) 875-5121

Vernon
Routes 94 & 515
(201) 764-4077

Wantage Township
Route 23 & 565
(201) 875-7715

WARREN COUNTY

Hackettstown
124 Maple Avenue
(908) 852-2770

* *Regional Headquarters*

Index To Financial Statements and Related Information

NATIONAL COMMUNITY BANKS, INC.

NEC SORTE NEC FATO

National Community Banks, Inc.
Consolidated Statements of Condition
December 31, 1990 and 1989

Assets	1990	1989
Cash and Due from Banks (Notes 1 and 2)	$ 410,775,000	$ 409,841,000
Federal Funds Sold and Securities Purchased under Agreements to Resell (Note 1)	70,000,000	55,000,000
Interest Bearing Deposits with Banks (Note 2)	2,200,000	4,000,000
Investment Securities (Market value of $ 527,151,000 in 1990 and $ 448,507,000 in 1989) (Notes 1 and 3)	523,781,000	448,689,000
Loans (Notes 1, 4 and 5)	2,901,853,000	2,981,465,000
Less: Unearned Income	(14,119,000)	(15,429,000)
Allowance For Possible Loan Losses	(74,347,000)	(31,683,000)
Net Loans	2,813,387,000	2,934,353,000
Bank Premises and Equipment – Net (Notes 1 and 6)	105,521,000	91,057,000
Other Real Estate (Note 1)	60,021,000	746,000
Accrued Interest Receivable	35,687,000	36,296,000
Other Assets (Note 8)	34,949,000	42,790,000
Total Assets	$ 4,056,321,000	$ 4,022,772,000
Liabilities and Shareholders' Equity		
Deposits:		
Non-Interest Bearing - Demand Deposits	$ 1,017,996,000	$ 1,024,095,000
Interest Bearing:		
Savings Deposits	1,620,511,000	1,428,316,000
Time Deposits	685,445,000	614,272,000
Time Deposits - $100,000 and over	301,418,000	484,168,000
Total Deposits	3,625,370,000	3,550,851,000
Short Term Borrowings (Note 7)	165,568,000	183,111,000
Accrued Interest and Other Liabilities	52,061,000	63,445,000
Total Liabilities	3,842,999,000	3,797,407,000
Commitments and Contingencies (Notes 10 and 13)		
Shareholders' Equity (Notes 1,11, 12 and 14)		
Preferred Stock (Par Value $2.00) Authorized 10,000,000 Shares, No Shares Issued	—	—
Common Stock (Par Value $2.00) Authorized 50,000,000 Shares, Issued 10,464,276 Shares in 1990 and 10,451,560 Shares in 1989	20,929,000	20,903,000
Capital Surplus	20,164,000	20,012,000
Retained Earnings	172,229,000	184,450,000
Total Shareholders' Equity	213,322,000	225,365,000
Total Liabilities and Shareholders' Equity	$ 4,056,321,000	$ 4,022,772,000

The accompanying notes to the consolidated financial statements are an integral part of these statements.

National Community Banks, Inc.
Consolidated Statements of Income
Years Ended December 31, 1990, 1989 and 1988

	1990	1989	1988
Interest Income (Note 1)			
Interest and Fees on Loans:			
Taxable	$ 301,404,000	$ 306,053,000	$ 251,424,0
Exempt from Federal Income Tax	10,651,000	12,411,000	12,527,0
Interest on Investment Securities:			
Taxable	24,720,000	23,199,000	22,068,0
Exempt from Federal Income Tax	11,121,000	9,238,000	7,172,0
Interest on Federal Funds Sold and Securities Purchased under Agreements To Resell	10,044,000	1,857,000	1,434,0
Interest on Deposits with Banks	242,000	425,000	263,0
Total Interest Income	358,182,000	353,183,000	294,888,0
Interest Expense			
Interest on Deposits	178,129,000	164,935,000	130,353,0
Interest on Short Term Borrowings (Notes 6 and 7)	16,225,000	22,743,000	14,013,0
Total Interest Expense	194,354,000	187,678,000	144,366,0
Net Interest Income	163,828,000	165,505,000	150,522,0
Provision for Possible Loan Losses (Note 5)	71,500,000	6,300,000	8,325,0
Net Interest Income After Provision for Possible Loan Losses	92,328,000	159,205,000	142,197,0
Other Income			
Trust Income (Note 1)	3,309,000	3,000,000	2,300,0
Service Charges on Deposit Accounts	19,663,000	17,049,000	14,748,0
International Fees and Commissions	4,274,000	4,566,000	4,073,0
Other	6,088,000	7,831,000	5,048,0
Total Other Income	33,334,000	32,446,000	26,169,0
Other Expenses			
Salaries and Employee Benefits (Notes 9 and 11)	67,957,000	72,008,000	58,537,0
Net Occupancy Expense (Note 10)	17,338,000	14,105,000	11,626,0
Equipment Expense	10,315,000	9,702,000	8,204,0
Other (Note 13)	37,388,000	32,841,000	30,416,0
Total Other Expenses	132,998,000	128,656,000	108,783,0
Income (Loss) Before Income Tax Provision (Benefit)	(7,336,000)	62,995,000	59,583,0
Income Tax Provision (Benefit) (Note 8)	(9,756,000)	17,990,000	17,568,0
Net Income	$ 2,420,000	$ 45,005,000	$ 42,015,00
Weighted Average Common Shares Outstanding	10,457,000	10,427,000	10,375,00
Net Income per Common Share (Note 1)	$.23	$4.32	$4.0

The accompanying notes to the consolidated financial statements are an integral part of these statements.

NATIONAL COMMUNITY BANKS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 1990, 1989 and 1988

	Common Stock	*Capital Surplus*	*Retained Earnings*	*Total Shareholders' Equity*
Balance, January 1, 1988	$ 20,747,000	$ 18,688,000	$ 124,078,000	$ 163,513,000
Net Income - 1988	—	—	42,015,000	42,015,000
Effect of Incentive Plans	71,000	669,000	—	740,000
Cash Dividend: $1.21 per share	—	—	(12,566,000)	(12,566,000)
Balance, December 31, 1988	20,818,000	19,357,000	153,527,000	193,702,000
Net Income - 1989	—	—	45,005,000	45,005,000
Effect of Incentive Plans	85,000	655,000	—	740,000
Cash Dividend: $1.35 per share	—	—	(14,082,000)	(14,082,000)
Balance, December 31, 1989	20,903,000	20,012,000	184,450,000	225,365,000
Net Income - 1990	—	—	2,420,000	2,420,000
Effect of Incentive Plans	26,000	152,000	—	178,000
Cash Dividend: $1.40 per share	—	—	(14,641,000)	(14,641,000)
Balance, December 31, 1990	$ 20,929,000	$ 20,164,000	$ 172,229,000	$ 213,322,000

The accompanying notes to the consolidated financial statements are an integral part of these statements.

NATIONAL COMMUNITY BANKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1990, 1989 and 1988 (Note 1)

	1990	1989	1988
Cash Flows From Operating Activities:			
NET INCOME	$ 2,420,000	$ 45,005,000	$ 42,015,00
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities :			
Accretion of Unearned Income	(9,097,000)	(7,097,000)	(7,870,00
Depreciation of Bank Premises and Equipment	8,846,000	8,143,000	6,409,00
Amortization of Premiums, Net of Accretion on Investment Securities	334,000	536,000	1,107,00
Amortization of Stock Grant Awards	169,000	734,000	734,00
Provision for Possible Loan Losses	71,500,000	6,300,000	8,325,00
Deferred Federal Income Tax Benefit	(18,717,000)	(2,126,000)	(2,598,00
Realization of (Premiums), on Investment Securities, Net	(1,298,000)	(893,000)	(919,00
Gain on Sale/Call of Investment Securities	(12,000)	(29,000)	(19,00
Gain on Sale of Loans	—	—	(352,00
(Increase) Decrease in Accrued Interest Receivable	609,000	(2,446,000)	(9,520,00
(Increase) Decrease in Other Assets	26,558,000	(26,501,000)	26,345,00
Increase (Decrease) in Accrued Interest and Other Liabilities	(11,387,000)	(535,000)	4,901,00
Total Adjustments	67,505,000	(23,914,000)	26,543,00
Net Cash Provided by Operating Activities	69,925,000	21,091,000	68,558,00
Cash Flows From Investing Activities:			
Net (Increase) Decrease in Interest Bearing Deposits with Banks	1,800,000	330,000	(2,424,00
Proceeds from Sales and Maturities of Investment Securities	400,789,000	193,991,000	127,245,00
Purchase of Investment Securities	(422,039,000)	(193,852,000)	(138,278,00
Proceeds from Loan Sales and Participations Sold	8,889,000	16,232,000	102,168,00
Net Increase in Loans	(3,192,000)	(269,584,000)	(530,381,00
(Increase) Decrease in Other Real Estate	(59,275,000)	137,000	(392,00
Purchase of Bank Premises and Equipment	(23,310,000)	(15,991,000)	(21,376,00
Net Cash Used in Investing Activities	(96,338,000)	(268,737,000)	(463,438,00
Cash Flows From Financing Activities:			
Net Increase in Deposit Accounts	74,519,000	472,054,000	387,424,00
Net Increase (Decrease) in Short Term Borrowings	(17,543,000)	(94,528,000)	38,111,00
Dividends Paid	(14,637,000)	(14,380,000)	(11,826,00
Proceeds from Issuance of Common Stock	8,000	6,000	6,00
Net Cash Provided from Financing Activities	42,347,000	363,152,000	413,715,00
Net Increase in Cash and Cash Equivalents	15,934,000	115,506,000	18,835,00
Cash and Cash Equivalents at Beginning of Year	464,841,000	349,335,000	330,500,00
Cash and Cash Equivalents at End of Year	$ 480,775,000	$ 464,841,000	$ 349,335,00

Supplemental Disclosures of Cash Flow Information:

	1990	1989	1988
Cash Paid During the Year for:			
Interest	$ 192,951,000	$ 181,145,000	$ 140,405,00
Income taxes	$ 10,578,000	$ 21,695,000	$ 18,138,00

The accompanying notes to the consolidated financial statements are an integral part of these statements.

te 1. Summary of Significant Accounting Policies
e more significant accounting policies not described elsewhere in these Notes to Consolidated Financial Statements : summarized as follows:

sis of Presentation:
e consolidated financial statements include the accounts of National Community Banks, Inc. (the Parent Company) d its wholly-owned subsidiary, National Community Bank of New Jersey (the Bank, or when consolidated with the rent Company, the Company). All significant intercompany balances and transactions have been eliminated.

estment Securities:
estment securities are generally intended to be held to maturity or call and are stated at cost, adjusted for amortiza-n of premiums and accretion of discounts on the straight-line method over the life of the security. Gains and losses on es of investment securities are computed on the specific identification method and are included in other income as y are immaterial in 1990, 1989 and 1988. The Company does not engage in any investment trading activities.

ans:
erest is accrued on loans primarily based upon the principal amount outstanding over the terms of the respective loan truments. Unearned income on certain installment loans is credited to operating income on an accelerated method er the term of the respective loan instruments. The Company does not accrue interest on any loan when factors indi-e collectibility is doubtful. When a loan is classified as non-accrual, uncollected past due interest is reversed and arged against current income. Interest income will not be recognized unless the financial condition of the borrower proves and payments are brought current. Interest on loans which have been restructured is accrued according to the egotiated terms.

an origination and commitment fees and certain costs are being deferred and are included in unearned income. The amount of fees and costs is being amortized as an adjustment of the yield, generally over the contractual life of the ated loans. However, for mortgage loans generally made for a 15 year term, the Company has anticipated prepayments d used an estimated life of seven years.

nk Premises and Equipment:
nk premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the aight-line method. Improvements are capitalized and maintenance and repairs are charged to expense. Rates of depre-tion are based on the following estimated lives: Buildings and Leasehold Improvements 20 to 40 years; Equipment, rniture and Fixtures 3 to 10 years.

her Real Estate:
her real estate includes loan collateral that has been formally repossessed and loan collateral that has been substan-lly repossessed, that is when the primary risks and rewards of ownership of the collateral have passed from the debtor the lender, based upon certain pre-defined criteria. All amounts included in other real estate are stated at the lower of outstanding loan amount or the fair market value of the underlying collateral. It is the Company's intention to sell all ossessed assets.

1990, the Company incurred expenses of approximately $1.3 million related to the costs to operate Other Real Estate valuation adjustments required for such properties.

owance for Possible Loan Losses:
e Company maintains the Allowance for Possible Loan Losses at a level considered adequate to provide for possible n losses. Management determines the adequacy of the allowance based on a credit review of the loan portfolio that alyzes potential charges to the allowance, past and expected loan loss experience, prevailing and anticipated economic nditions, the financial condition of the borrowers, adequacy of collateral, and other factors which are relevent to the llectibility of loans. The allowance is increased by provisions charged to operating expense and loan recoveries, and duced by loans charged off.

Note 1. Summary of Significant Accounting Policies (continued)

Federal Income Taxes:

The Company recognizes certain items of income and expense, primarily the accretion of discount on investment securities, provisions for possible loan losses, loan fee income and accelerated depreciation on bank premises and equipment in different periods for financial statement purposes than for tax purposes. Provisions for deferred income taxes are made currently in recognition of these timing differences.

In December 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes. The new standard must be adopted for fiscal years beginning after December 15, 1991, and requires comprehensive ta allocation using the liability method of accounting. Under this method, deferred income taxes are provided on tempor differences based upon the expected tax rates in the year in which payment of taxes is anticipated. Subsequent change income tax rates would require adjustment of the deferred income tax liability or asset to reflect the new tax rates.

Adoption of this new standard can be effected by either retroactively restating prior years or recording the cumulative adjustment through income in the year the standard is adopted. The Company has not yet determined when or how it will adopt the new standard, or the affect of such adoption on the financial statements. The Company does not anticip that the adoption of this new standard will have a material affect upon the Company's financial condition.

Trust Assets and Income:

Property held in fiduciary or agency capacities for the Company's customers is not included in the Statement of Condition since such items are not assets of the Company. Trust income is reported on the accrual basis.

Net Income Per Common Share:

Net income per common share is based on the weighted average number of shares of common stock outstanding durin the respective years. The effect of stock grants and options is immaterial.

Statement of Cash Flows:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, non-interest bearing amounts du from banks, Federal funds sold and securities purchased under agreements to resell. Generally, Federal funds sold are f a one-day period and repurchase agreements mature within 30 days.

Reclassifications:

Certain amounts in the 1988 and 1989 financial statements have been reclassified to conform to the classifications use in the 1990 presentation.

Note 2. Cash, Due from Banks and Interest Bearing Deposits with Banks

Cash balances reserved to meet regulatory requirements of the Federal Reserve Bank and balances maintained at other banks for compensating balance requirements amounted to $50,114,000 and $75,979,000 at December 31, 1990 and 1989, respectively.

Note 3. Investment Securities

Information relative to the Company's Investment portfolio is as follows:

	December 31, 1990			
	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized (Losses)*	*Estimated Market Value*
U.S. Treasury Securities and Obligations of U.S. Government Agencies	$ 214,782,000	$ 2,000,000	($ 17,000)	$ 216,765,00C
Obligations of States and Political Subdivisions	151,796,000	278,000	(354,000)	151,720,00C
Corporate Securities	58,739,000	459,000	(241,000)	58,957,000
Mortgage Backed Securities (U.S. Agency Issued)	98,464,000	1,548,000	(303,000)	99,709,000
Total	$ 523,781,000	$ 4,285,000	($915,000)	$ 527,151,000

Note 3. Investment Securities (continued)

	December 31, 1989			
	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized (Losses)*	*Estimated Market Value*
U.S. Treasury Securities and Obligations of U.S. Government Agencies	$195,549,000	$ 937,000	($ 333,000)	$196,153,000
Obligations of States and Political Subdivisions	183,505,000	295,000	(635,000)	183,165,000
Corporate Securities	20,857,000	32,000	(134,000)	20,755,000
Mortgage Backed Securities (U.S. Agency Issued)	48,778,000	189,000	(533,000)	48,434,000
Total	$448,689,000	$ 1,453,000	($1,635,000)	$448,507,000

The amortized cost and estimated market value of investment securities at December 31,1990 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may give the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Market Value
Due in one year or less	$ 220,706,000	$ 221,008,000
Due after one year through five years	187,263,000	189,130,000
Due after five years through ten years	6,090,000	6,056,000
Due after ten years	11,258,000	11,248,000
	425,317,000	427,442,000
Mortgage-backed securities	98,464,000	99,709,000
	$ 523,781,000	$ 527,151,000

There were no sales of investment securities during 1990. In the year, gains of $12,000 were realized on the early call of certain investments securities.

The par value of securities pledged to secure public funds, trust funds, repurchase agreements and for other purposes required by law was $180,744,000 on December 31, 1990 and $140,637,000 on December 31, 1989.

Note 4. Loans

The Company's loans are primarily to businesses and individuals located in New Jersey.

A summary of loans is as follows:

	December 31, 1990	December 31, 1989
Loans Secured by Real Estate:		
Residential	$ 1,010,502,000	$ 979,990,000
Construction	202,151,000	285,755,000
Commercial	830,641,000	805,810,000
Commercial and Industrial Loans	518,836,000	580,000,000
Loans to Individuals for Household, Family, and Other Personal Expenditures	206,626,000	182,417,000
Obligations of States and Political Subdivisions in the U.S.	120,304,000	133,724,000
Other Loans	12,793,000	13,769,000
Total Loans, Gross	$ 2,901,853,000	$ 2,981,465,000

Note 4. Loans (continued)

Non-Performing Loans:

Non-performing loans include non-accrual loans and renegotiated loans. Non-accrual loans represent loans for which accrual of interest income has been discontinued. Renegotiated loans represent loans on which the original contractual terms have been modified to provide concessions to the borrower.

The principal amounts of non-performing loans were $99,370,000 and $50,249,000 at December 31, 1990 and 1989, respectively, which includes $92,101,000 and $48,380,000 of non-accrual loans, respectively. Total renegotiated loans were $10,042,000, and $3,651,000 as of December 31, 1990 and 1989, respectively, of which $7,269,000 and $1,869,000 were performing in accordance with modified terms.

Risk Factors:

If interest had been accrued on the non-accrual loans based upon their original terms, the after tax effect on net income would have been an increase of approximately $8,800,000 and $3,220,000 in 1990 and 1989, respectively. The interest that would have been earned on these loans in 1990 and 1989 was approximately $14,667,000 and $5,367,000, respectively. Interest earned on renegotiated loans in 1990 and 1989 was approximately $722,000 and $209,000, respectively which is not materially different than the interest that would have been earned on such loans based upon their original terms.

The economy in which the Company operates has been affected by the deterioration of the New Jersey and the Northeast's real estate market. This appears to be the result of over building, depressed real estate prices, and a general slow down in economic performance for the state and the region. These conditions are having an adverse effect on companies doing business in the area, and are resulting in increases in non-performing loans and greater charge-offs for financial institutions operating in the area. The prospects as to the extent and the timing of future improvement are uncertain at this time.

Loans to Related Parties:

Loans to related parties have been granted under terms and conditions in accordance with the Company's normal lending policies. These loans include loans made to directors, executive officers and their associates, as defined. The balance as of December 31, 1990 of loans to related parties was approximately $29.8 million. The amount as of December 31, 1989 was $26.2 million. During 1990, advances and new loans were approximately $14.9 million and loan repayments were approximately $11.3 million. As of December 31, 1990 all loans to related parties were current as to principal and interest payments.

Note 5. Allowance for Possible Loan Losses

The Allowance for Possible Loan Losses is based on management's estimate of the amount required to reflect risk in the loan portfolio, based on circumstances and conditions known or anticipated at each reporting date. The ultimate losses may vary from current estimates. Considerable uncertainty exists as to the final outcome of certain loans and non-performing assets as a result of the unpredictable operating conditions in the region. These uncertainties could result in the Company's experiencing increased levels of non-performing loans, greater charge-offs and increased provisions for possible loan losses in subsequent periods. An analysis of the Allowance for Possible Loan Losses is as follows:

	December 31,		
	1990	*1989*	*1988*
Balance, Beginning of Year	$ 31,683,000	$ 29,112,000	$ 23,610,000
Recoveries	2,519,000	1,055,000	1,255,000
Provision	71,500,000	6,300,000	8,325,000
Charge-Offs	(31,355,000)	(4,784,000)	(4,078,000)
Balance, End of Year	$ 74,347,000	$ 31,683,000	$ 29,112,000

The Allowance for Possible Loan Losses for Federal income tax purposes was $4,259,000, $5,938,000 and $6,351,000 at December 31, 1990, 1989 and 1988, respectively.

...te 6. Bank Premises and Equipment

...ummary of the major classes of Bank Premises and Equipment is as follows:

	December 31, 1990	December 31, 1989
...nd	$ 11,738,000	$ 11,090,000
...nk Buildings	50,423,000	45,272,000
...uipment, Furniture and Fixtures	51,506,000	47,977,000
...pitalized Leases and Improvements	24,714,000	24,674,000
...nstruction in Progress	17,947,000	4,432,000
	156,328,000	133,445,000
...s: Accumulated Depreciation and Amortization	50,807,000	42,388,000
	$105,521,000	$ 91,057,000

...of December 31, 1990, approximately $14 million classified as Construction in Progress relates to the construction of ...ew administrative facility scheduled for occupancy commencing in the second quarter of 1991. Once placed in ser-...e, approximately $5.2 million will be reclassified as land and $8.8 million will be reclassified as buildings. During ...90, approximately $641,000 of interest expense was capitalized to this construction project based upon the Company's ...rage short term borrowing rate on the capital expenditures made during the year.

...te 7. Short Term Borrowings

...ese borrowings consist of:

	December 31, 1990	December 31, 1989
...leral Funds Purchased	$ 36,240,000	$ 83,726,000
...urities Sold under Agreements to Repurchase	128,697,000	99,322,000
...bilities for Other Borrowed Money	631,000	63,000
Total	$ 165,568,000	$ 183,111,000

...st Federal funds purchased mature in one day and the majority of securities sold under agreements to repurchase ...ture within 30 days.

...ails with respect to the Federal funds purchased and securities sold under agreements to repurchase are as follows:

	December 31, 1990	December 31, 1989
...eral Funds Purchased:		
...imum Amount Outstanding at any Month End	$ 103,280,000	$ 271,397,000
...ighted Average Rate at Year End	6.07%	8.00%
...rage Amount Outstanding during Year	$ 83,081,000	$ 149,405,000
...ghted Average Rate during Year	7.92%	9.37%
...urities Sold under Agreements to Repurchase:		
...imum Amount Outstanding at any Month End	$ 136,823,000	$ 109,062,000
...ghted Average Rate at Year End	6.62%	7.97%
...rage Amount Outstanding during Year	$ 123,788,000	$ 99,632,000
...ghted Average Rate during Year	7.64%	8.58%

...average amounts outstanding are primarily daily averages, and the average interest rates for the year are computed ...dividing the respective interest expense by the average balances outstanding.

Note 8. Income Taxes
The components of the income tax provision (benefit) are presented below:

	December 31, 1990	1989	1988
Federal Income Taxes – Current	$ 6,617,000	$ 15,410,000	$ 15,835,0(
– Deferred	(18,717,000)	(2,126,000)	(2,598,00
State Income Taxes	2,344,000	4,706,000	4,331,0(
Total Provision (Benefit)	($ 9,756,000)	$ 17,990,000	$ 17,568,0(

The deferred Federal income tax benefit results primarily from differences between financial reporting and tax accounting for the provision for possible loan losses, net of other differences, which include recognition of discount accretion income on investment securities, depreciation of bank premises and equipment, and recognition of loan fee income.

The Company recognized a tax benefit in 1990. This was the result of carrying back the pre-tax loss and the effect of ta exempt income from loans and investments to years in which the Company provided for the applicable taxes at a statutory rate which was greater than the tax rate in effect for 1990.

As of December 31, 1990 and 1989, the Company had recorded a cumulative deferred tax asset of $27,050,000 and $8,333,000, respectively, which is included in Other Assets.

A reconciliation of the income tax provision (benefit), as reported, with the Federal income tax at the statutory rate of 34% in 1990, 1989, and 1988 is as follows:

	1990	1989	1988
Federal Income Tax at Statutory Rate	($ 2,494,000)	$ 21,418,000	$ 20,258,000
Tax Exempt Income from Loans and Investments	(6,535,000)	(6,533,000)	(6,116,000)
State Income Taxes, Net of Federal Income Tax Benefit	1,546,000	3,106,000	2,859,000
Rate Differences in Carry Back Period	(1,584,000)	—	—
Effect of Settlements	(761,000)	—	—
Other	72,000	(1,000)	567,000
Total Income Tax Provision (Benefit)	($ 9,756,000)	$ 17,990,000	$ 17,568,000
Percentage of Pre-Tax Income (Loss)	(133.0%)	28.5%	29.5%

Note 9. Benefit Plans

The Bank has a retirement plan covering substantially all of its employees. Under the plan, eligible employees receive benefit payments upon retirement, the amounts of which are determined by the employee's earnings and years of servic The Bank's funding policy is to contribute annually an amount ranging between the minimum and the maximum amou that can be deducted for Federal income tax purposes. Contributions are intended to provide not only benefits attribute to service to date, but also for those expected to be earned in the future. Costs of the Bank's retirement plan are accounted for in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions."

...te 9. Benefit Plans (continued)

...l pension expense for 1990, 1989 and 1988 was approximately $1,133,000, $1,409,000 and $1,251,000, respec-
...ly.

... following table sets forth the plan's funded status and amounts recognized in the Company's consolidated financial ...ements at December 31, 1990 and 1989.

...uarial present value of benefit obligations:	1990	1989
...umulated benefit obligation, including vested benefits of $22,321,000 in 1990 and $20,227,000 in 1989	$ 22,684,000	$ 20,503,000
...ected benefit obligation for service rendered to date	$ 28,125,000	$ 25,594,000
...n assets at fair value	27,832,000	25,582,000
...jected benefit obligation in excess of plan assets	293,000	12,000
...ecognized net gain from past experience different from that assumed and effects of changes in assumptions	392,000	1,174,000
...ecognized net obligation at January 1, 1988 being recognized over 25 years	(476,000)	(498,000)
...rued pension liability included in other liabilities	$ 209,000	$ 688,000

...t pension cost for 1990 and 1989 included the following components:	1990	1989
...rvice cost–benefits earned during the year	$ 1,025,000	$ 1,316,000
...erest cost on projected benefit obligation	2,262,000	2,282,000
...pected return on plan assets	(2,174,000)	(2,212,000)
...t amortization and deferral	22,000	23,000
...t periodic pension cost	$ 1,133,000	$ 1,409,000

...e weighted average discount rate, and rate of increase in future compensation levels used in determining the actuarial ...esent value of the projected benefit obligation, were 8.5 percent and 5.0 percent, respectively. The expected long-term ...te of return on assets was 8.5 percent and 9.5 percent in 1990 and 1989, respectively.

...e Bank has an Employees' Incentive Savings Plan (the Plan) whereby eligible participating employees may elect to ...ntribute between 1% and 15% of their salaries to the Plan. In addition, the Bank will contribute up to 75% of an ...ployee's contribution up to a maximum of 5% of the employee's salary. In 1991 the Bank's contribution will be ...duced to a maximum of 30% of an employee's contribution; however, predicated on the level of profitability, the ...ard of Directors may approve a supplemental contribution. The aggregate benefit payable to any employee is depen-...nt upon the rate of contribution, the earnings of the Plan assets and the length of time such employee continues as a ...rticipant. The Bank's contribution for the years ended December 31, 1990, 1989 and 1988 was approximately ...97,000, $774,000 and $647,000, respectively.

...e Bank also provides medical, dental and life insurance benefits for its retirees. The benefits are funded through ...rent operations. The amount charged to operations in 1990 was approximately $150,000. In 1989 and 1988 the ...ounts were approximately $125,000 in each year.

...December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. ...6, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FASB 106"). This statement will be ...ective for the Company beginning in 1993. FASB 106 establishes standards of financial accounting and reporting for ...employer that offers postretirement benefits other than pensions to its employees. This standard will require the ...mpany to accrue the cost of postretirement benefits (primarily medical, dental and life insurance benefits described ...ve) over the careers of the active employees. At this time, management has not determined the impact that FASB 106 ... have on the future results of operations.

Note 10. Commitments and Contingencies

Commitments with Off Balance Sheet Risk:
The Consolidated Statement of Condition does not reflect various commitments relating to financial instruments whicl are used in the normal course of business. Management does not anticipate that the settlement of those financial instru ments will have a material adverse effect on the Bank's financial position. These instruments include commitments to extend credit and letters of credit. These financial instruments carry various degrees of credit risk, which is defined as the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract

Commitments to extend credit are legally binding loan commitments with set expiration dates. They are intended to be disbursed, subject to certain conditions, upon request of the borrower. The Bank receives a fee for providing a commit ment. The Bank was committed to advance approximately $97,086,000 and $302,859,000 to its borrowers as of Dece ber 31, 1990 and 1989, respectively. Loan commitments generally expire within one year. In addition, the Company ha extended lines of credit relating primarily to Home Equity loans with unused amounts outstanding of $136,473,000 ar $129,053,000 in 1990 and 1989, respectively. These commitments have no fixed expiration dates.

Standby letters of credit are provided to customers to guarantee their performance, generally in the production of gooc and services or under contractual commitments in the financial markets. The Bank has entered into standby letter of credit contracts and commercial letter of credit contracts with its customers totaling approximately $94,856,000 and $112,545,000 as of December 31, 1990 and 1989, respectively, which generally expire within one year.

Lease Obligations:
The Bank leases certain property under noncancellable operating leases. The minimum annual rentals under these lease are summarized as follows:

1991	$ 5,504,000
1992	4,586,000
1993	4,167,000
1994	4,195,000
1995	4,054,000
1996-2000	14,786,000
2001-2005	11,536,000
Subsequent Years	6,030,000
	$ 54,858,000

Total rental expense amounted to $6,884,000, $4,549,000 and $3,842,000 in 1990, 1989 and 1988, respectively. It is anticipated that rental payments will exceed the minimum rental commitments shown above. As discussed in Note 6, tl Company anticipates that it will move certain of its operations to a new administrative facility commencing in the secor quarter of 1991. The anticipated move will result in the Company's abandoning certain leased facilities prior to the end of their noncancellable lease terms. As of December 31, 1990, the Company accrued approximately $1.6 million representing the rents that the Company anticipates it will incur after the facilities have been abandoned.

The Company leases certain of its facilities from companies which are affiliated with certain Directors of the Company Rental payments for such facilities were immaterial in relation to the total rental expense incurred by the Company in 1990, 1989 and 1988.

te 11. Long Term Incentive Plans

Long Term Stock Incentive Plan (the Plan) provides for awarding stock options and stock grants to selected key loyees. The Plan authorizes grants of options to purchase up to 520,000 shares of the Company's common stock. options awarded pursuant to the Plan are intended to be either Incentive Stock Options or Non-Qualified Stock ons. Options expire not more than ten years after the date of grant.

following is a summary of changes in Incentive Stock Options and Non-Qualified Stock Options outstanding (ex-ing performance based options described below):

	Years Ended December 31,					
	1990		*1989*		*1988*	
	Shares	*Option Price*	*Shares*	*Option Price*	*Shares*	*Option Price*
ions outstanding, January 1	8,800	$10.69	8,800	$10.69	8,800	$10.69
	121,600	$28.25	121,800	$28.25	122,000	$28.25
ercised	300	$28.25	200	$28.25	200	$28.25
tions outstanding, December 31	8,800	$10.69	8,800	$10.69	8,800	$10.69
	121,300	$28.25	121,600	$28.25	121,800	$28.25

uring 1989, the Company granted performance based non-qualified stock options to certain key employees. No perfor-ance based options were granted in 1990. The maximum number of shares of common stock issuable upon exercise of ch performance based options is 140,500 shares. The exercisability of these performance based options is contingent on the Company's achieving certain pre-defined performance criteria over multi-year periods. Such criteria were not hieved in 1990. In 1990, the Company reversed approximately $1.2 million of previously accrued executive compensa-n related to these options.

he amount (credited) charged to operations for the Plan was approximately ($1,051,000), $1,604,000 and $1,084,000 1990, 1989 and 1988, respectively. As of December 31, 1990, options covering 207,800 shares of common stock ere outstanding and options covering an additional 214,700 shares of common stock may be issued in the future.

e Plan also authorized the awarding of stock grants for up to 160,000 shares of the Company's common stock. These ants were contingent upon the completion by recipients of a specified employment period. As of December 31, 1990, grants were outstanding and no further grants are authorized under the Plan. For periods during which the grants ere outstanding, the fair market value of the stock was charged to operations over the award period.

te 12. Funds Available for Dividends

e Bank is restricted under applicable laws in the payment of cash dividends to the Company. Such laws generally trict cash dividend payments for the year 1991 to the extent of the Bank's net profits for 1991 plus $18,702,000 of ailable net profits from prior years. At December 31, 1990, the amount available for payment of cash dividends by the nk decreased approximately $42,375,000 as compared to the prior year end.

Note 13. Litigation

On January 9, 1991, the Company, the Bank and certain directors and officers of the Company (collectively, the Defer dants) were named defendants in a complaint, filed in the United States District Court for the District of New Jersey, seeking relief on behalf of an alleged class of shareholders. The complaint alleges that the Defendants violated Federal securities law and common law by making materially false and misleading statements to artificially inflate and maintai the market price of the Company's common stock during the period between March 1, 1989 and October 24, 1990. Discovery in the action is proceeding, although the ultimate outcome of such proceedings cannot presently be determined. Management believes that there are meritorious defenses to the complaint and the Defendants intend to vigorously contest this litigation. An accrual for estimated legal fees has been reflected in the Company's results of operatio for the year ended December 31, 1990.

The Company and the Bank, in the normal course of business, are also involved in other legal proceedings. In the opinion of management, the ultimate disposition of such other matters should not have a material adverse effect on the consolidated financial position of the Company. Legal expenses incurred in 1990, 1989 and 1988 were approximately $4.1 million, $2.9 million and $1.2 million, respectively.

Note 14. Preferred Share Rights Plan

On December 19, 1990 the Company adopted a preferred share rights plan (the Plan), pursuant to which each shareholder is entitled to one preferred share purchase right (a Right) for each outstanding share of common stock. The Rights will expire on December 31, 2000 unless extended or redeemed by the Company. Each Right entitles the holder to purchase from the Company one one-hundredth of a share of Series A Preferred Stock (a Preferred Share) at a price of $100 per one one-hundredth of a Preferred Share (the exercise price), subject to adjustment. In general, if a person (group acquires 10.5% or more of the Company's outstanding common stock, then the Rights may be exercised by the shareholders to purchase, at the exercise price, a number of common shares having a market value equal to twice the exercise price of the Rights. If the Company is acquired in a merger, the Rights may be exercised to purchase common shares of the acquiring company at a similar discount. At any time after the acquisition by a person or a group of 10.5% or more of the Company's common stock and prior to the acquisition by such person or group of 50% or more of the common stock, the Company may exchange the Rights at an exchange ratio of one common share, or one one-hundredt of a Preferred Share, per Right (subject to adjustment). This description of the Plan does not purport to be complete an is qualified in its entirety by reference to the Rights Agreement, a copy of which has been filed with the Company's Current Report on Form 8-K dated December 19, 1990.

15. Quarterly Financial Data (Unaudited)

ollowing quarterly financial information for the two years ended December 31, 1990 is unaudited. However, in gement's opinion, all adjustments, which include only normal recurring adjustments necessary to present fairly the s of operations for the periods, are reflected. Results of operations for the periods are not necessarily indicative of esults for the entire year or any other interim period.

	1st Quarter	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
est Income	$ 89,031,000	$ 88,057,000	$ 90,920,000	$ 90,174,000
Interest Income	41,556,000	40,296,000	41,090,000	40,886,000
sion for Possible Loan Losses	12,000,000	13,600,000	32,900,000	13,000,000
me (Loss) Before Income Tax Provision	6,095,000	4,812,000	(16,807,000)	(1,436,000)
Income (Loss)	5,430,000	4,607,000	(9,940,000)	2,323,000
Income (Loss) per Common Share	$ .52	$ .44	($ .95)	$ .22

	1st Quarter	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
est Income	$ 84,338,000	$ 89,367,000	$ 89,780,000	$ 89,698,000
nterest Income	40,522,000	41,511,000	41,691,000	41,781,000
sion for Possible Loan Losses	1,350,000	1,850,000	1,200,000	1,900,000
ne Before Income Tax Provision	16,551,000	17,645,000	16,927,000	11,872,000
ncome	11,607,000	12,072,000	12,194,000	9,132,000
ncome per Common Share	$ 1.12	$ 1.16	$ 1.17	$ .87

Note 16. Condensed Financial Statements of : National Community Banks, Inc. (Parent Company Only)(a)

Condensed Statement of Condition	December 31, 1990	December 31, 1989
Assets		
Cash and Due from Banks	$ 4,055,000	$ 3,714,000
Investment in Subsidiary (b)	213,929,000	225,330,000
Total Assets	$ 217,984,000	$ 229,044,000
Liabilities and Shareholders' Equity		
Accounts Payable and Accrued Expenses	$ 1,000,000	$ 21,000
Dividends Payable	3,662,000	3,658,000
Total Liabilities	4,662,000	3,679,000
Shareholders' Equity	213,322,000	225,365,000
Total Liabilities and Shareholders' Equity	$ 217,984,000	$ 229,044,000

Condensed Statement of Income	Year Ended December 31, 1990	Year Ended December 31, 1989
Income		
Dividends from Subsidiary	$ 15,141,000	$ 14,582,000
Equity in Undistributed Earnings of Subsidiary	(11,402,000)	31,628,000
Total Income	3,739,000	46,210,000
Expense		
Salaries and Employee Benefits	182,000	795,000
Interest Expense	—	2,000
Other Expense	1,137,000	408,000
Total Expense	1,319,000	1,205,000
Net Income	$ 2,420,000	$ 45,005,000

Condensed Statement of Cash Flows	Year Ended December 31, 1990	Year Ended December 31, 1989
Cash Flows from Operating Activities:		
Net Income	$ 2,420,000	$ 45,005,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities :		
Amortization of Stock Grant Awards	169,000	734,000
Increase in Accounts Payable and Accrued Expenses	979,000	21,000
Undistributed Earnings in Subsidiary	11,402,000	(31,628,000)
Total Adjustments	12,550,000	(30,873,000)
Net Cash Provided by Operating Activities	14,970,000	14,132,000
Cash Flows From Financing Activities:		
Dividends Paid	(14,637,000)	(10,424,000)
Proceeds From Issuance of Common Stock	8,000	6,000
Net Cash Used in Financing Activities	(14,629,000)	(10,418,000)
Net Increase in Cash	341,000	3,714,000
Cash at Beginning of Year	3,714,000	—
Cash at End of Year	$ 4,055,000	$ 3,714,000

(a) On February 28, 1989, the shareholders of National Community Bank of New Jersey exchanged their shares on a share-for-sha basis for the shares of the Company, a newly formed bank holding company. This transaction has been accounted for as a pooling interests.

(b) Investment in Subsidiary is accounted for on the equity method.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF NATIONAL COMMUNITY BANKS, INC.

We have audited the accompanying consolidated statements of condition of National Community Banks, Inc. (a New Jersey Corporation) and its subsidiary as of December 31, 1990 and 1989, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Community Banks, Inc. and subsidiary as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As described in Note 13 to the consolidated financial statements, National Community Banks, Inc. (the Company), its subsidiary, National Community Bank of New Jersey, and certain directors and officers of the Company have been named defendants in a complaint seeking relief on behalf of an alleged class of shareholders. This litigation is in a preliminary stage and its ultimate outcome cannot presently be determined.

Arthur Andersen & Co.

Roseland, New Jersey
January 21, 1991

Market Prices and Dividend Data

The following table sets forth, for each of the periods indicated, the high and low closing sales prices of the Company's Common Stock on the NASDAQ National Market System (as reported by the National Quotation Bureau) and the dividends declared thereon.

	Closing Sales Price High	Closing Sales Price Low	Dividends Declared
Year Ended December 31,1989:			
First Quarter	$ 37 1/4	$ 34	$ .30
Second Quarter	39 1/2	36 3/4	.35
Third Quarter	44 3/4	37 1/2	.35
Fourth Quarter	41	31	.35
Year Ended December 31,1990:			
First Quarter	$ 33 3/4	$ 18 3/4	$ .35
Second Quarter	23 3/4	18 1/2	.35
Third Quarter	19 1/2	10 1/2	.35
Fourth Quarter	19 1/4	10 1/4	.35

As of December 31, 1990, there were approximately 6,845 shareholders of record of the Company's Common Stock.

Dividends on the Company's Common Stock are within the discretion of the Board of Directors of the Company and dependent upon various factors, including the future earnings and financial condition of the Company. Recently impl mented risk-based capital and leverage rules operate as constraints on the amount of dividends payable by the Bank t the Company and on the amount of dividends payable by the Company to shareholders. See "Management's Discussi and Analysis of Financial Condition and Results of Operations — Capital". Such dividends are also subject to various limitations imposed by federal and state laws and by other regulations adopted by federal regulatory agencies. The Ba is required by federal law to obtain the approval of the Comptroller of the Currency for the payment of dividends if th total of all dividends declared by the Board of Directors of the Bank in any year will exceed the total of the Bank's net profits for that year and the retained net profits for the preceding two years, less any required transfers to surplus. Se Note 12 of the Notes to Consolidated Financial Statements. Policy statements by bank regulators, their authority to ca banking institutions to cease and desist from unsafe practices and regulatory pressures to reclassify and charge-off loa and to establish additional loan loss provisions also serve as constraints upon the amount of dividends payable by ban ing institutions such as the Bank and the Company.

A copy of the National Community Banks, Inc. Form 10-K, which is filed with the Securities and Exchange Commission, is available (excluding exhibits) without charge upon written request addressed to Anthony J. Franchina, Executive Vice President and Treasurer, 113 West Essex Street, Maywood, New Jersey 07607.

MMARY OF SELECTED FINANCIAL DATA

	Years Ended December 31,				
	1990	1989	1988	1987	1986
	(Dollars in Thousands, Except Per Share Amounts)				
nings Summary:					
est Income	$ 358,182	$ 353,183	$ 294,888	$ 227,857	$ 186,287
est Expense	194,354	187,678	144,366	105,697	85,951
Interest Income	163,828	165,505	150,522	122,160	100,336
ision for Possible Loan Losses	71,500	6,300	8,325	7,600	5,650
Interest Income After Provision For Possible Loan Losses	92,328	159,205	142,197	114,560	94,686
er Income	33,334	32,446	26,169	20,683	17,933
er Expenses	132,998	128,656	108,783	88,107	75,478
me (Loss) Before Income Taxes	(7,336)	62,995	59,583	47,136	37,141
me Tax Provision (Benefit)	(9,756)	17,990	17,568	12,602	9,695
Income	$ 2,420	$ 45,005	$ 42,015	$ 34,534	$ 27,446
ighted Average Common Shares Outstanding	10,457	10,427	10,375	10,352	10,320
t Income per Common Share	$.23	$4.32	$4.05	$3.34	$2.66
tatement of Condition Summary:					
vestment Securities	$ 523,781	$ 448,689	$ 400,734	$ 388,865	$ 379,086
ans	2,901,853	2,981,465	2,769,017	2,335,802	1,787,731
tal Assets	4,056,321	4,022,772	3,614,416	3,153,051	2,748,370
eposits	3,625,370	3,550,851	3,078,797	2,691,373	2,435,807
hareholders' Equity	213,322	225,365	193,702	163,513	138,242
Ratios:					
eturn on Average Assets	.06%	1.20%	1.25%	1.24%	1.22%
eturn on Average Shareholders' Equity	1.09	21.48	23.64	22.75	21.50
ividend Payout	608.70	31.25	29.88	28.74	29.32
verage Shareholders' Equity to Average Assets	5.51	5.59	5.29	5.46	5.66
llowance for Possible Loan Losses to Loans Outstanding	2.56	1.06	1.05	1.01	1.00

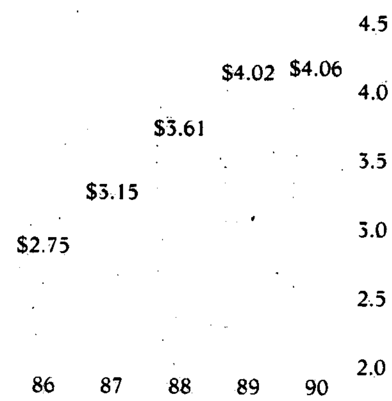
This annual report constitutes the "annual disclosure statement" required under Part 18 of Title 12 of the Code of Federal Regulations (12 CFR 18). This statement has not been reviewed, or confirmed for accuracy or relevance by the Office of the Comptroller of the Currency.

The following discussion and analysis of financial condition and results of operations should be read in conjunction w the Company's Consolidated Financial Statements, the notes relating thereto, and the other statistical data presented elsewhere herein.

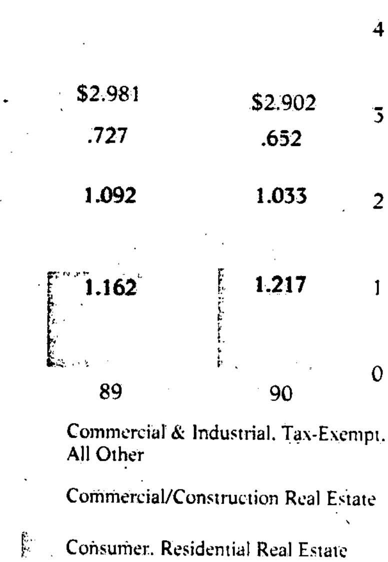
In 1990, the Company's earnings trend of the last nine years was reversed. Both earnings and earnings per share signi cantly declined from the prior level of $45 million or $4.32 per share in 1989 to $2.4 million or $.23 per share in 199 This decline resulted primarily from deteriorating economic conditions, particularly the depressed real estate market i the region. The impact of this deterioration is more fully described in the Overview, Asset Quality and Provision for Possible Loan Losses sections which follow in this report.

However, in 1990, the Company continued to expand its branch franchise to 115 sites, now in 13 of New Jersey's cou ties, re-directed the composition of its earning assets, grew its core and total deposits, improved its liquidity, reduced dependence on borrowed funds and strengthened its Allowance for Possible Loan Losses. The following graphs displa some of these trends. These factors are elaborated upon in the text that follows.

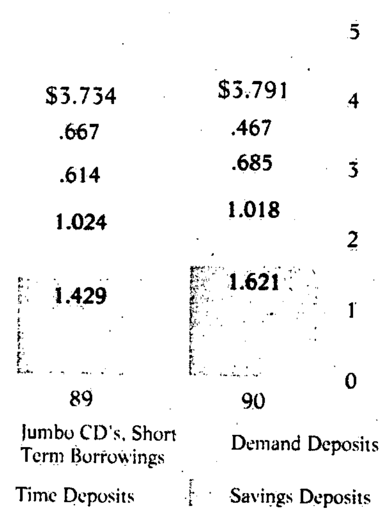
Assets
(In Billions)



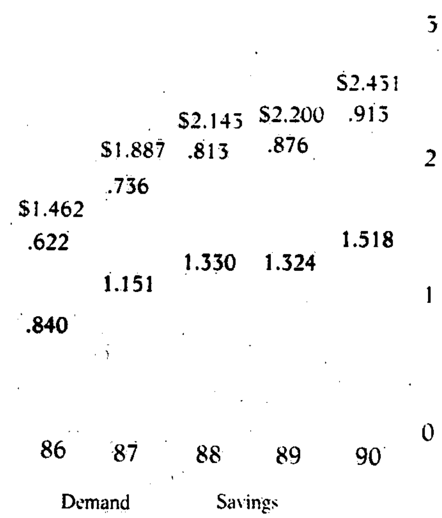
Loans
(In Billions)



Deposits & Borrowings
(In Billions)



Average Core Deposits
(In Billions)



..ew

. first time since 1981, National Community Bank, Inc.(the Company) reported a decline in net income. The .ant reduction in net income from $45.0 million bottom-line results in 1989 to $2.4 million in 1990 reflects the .of a $71.5 million Provision for Possible Loan Losses recorded in 1990, the effect of an increase in non-perform-..s and the costs associated with troubled assets. The Company's earnings were adversely affected by the down- .New Jersey's economy, particularly the deterioration of the real estate sector. Certain of its customers are experi- .adverse operations brought about because of depressed real estate prices and over-building. The continued ..inty in the economic environment will likely impede the Company's ability in the foreseeable future to return to ..nings levels achieved in previous years.

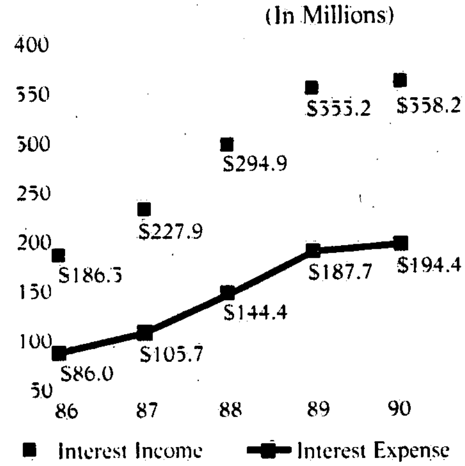
..t income increased by $5.0 million in 1990. The decline in interest earned on the loan portfolio was offset by ..es in earnings from the investment portfolio and the interest earned on Federal Funds Sold and Securities Pur- .d under Agreements to Resell. The $6.7 million increase in interest expense in 1990 was primarily the result of a .deposit base. The Company reduced its dependence on short term borrowings and time deposits over $100,000. .ompany continues to maintain a strong level of low cost funds in demand deposits and "core" deposits in relation ..al deposits.

..90, the Company recognized a pre-tax loss of $7.3 million. This loss, coupled with the effect of tax exempt income .loans and other investments, allowed the Company to recognize a $9.8 million tax benefit by carrying back the pre- ..ss to years in which it provided for applicable taxes at a statutory rate which was greater than the tax rate in effect ..990.

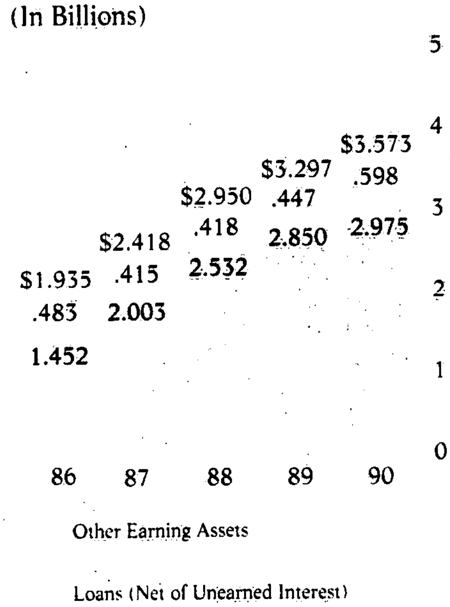
.Interest Income

.principal component of income is net interest income - the difference between interest received on assets, primarily ..s and investments, and the interest expense paid on liabilities, such as deposits and borrowings. These components .affected by changes in the volume of interest earning assets and interest-bearing liabilities, changes in interest rates ..ed and paid, and the amount of interest earning assets funded by non-interest bearing deposits, low cost deposits ..by shareholders' equity.

Interest Income and Interest Expense
(In Millions)



Average Earning Assets
(In Billions)



.e following table reflects the components of net interest income, setting forth, for the five years ended December 31, .90: (i) average assets, liabilities and shareholders' equity, (ii) interest income earned on interest earning assets and .erest expense paid on interest bearing liabilities, (iii) average rates earned on interest earning assets and average rates .d on interest bearing liabilities, (iv) the Company's net interest spread (i.e., the difference between the average rate .ned on interest earning assets and the average rate paid on interest bearing liabilities) and (v) the Company's net yield .interest earning assets (i.e., net interest income divided by average interest earning assets). Dollar amounts are .sented in thousands and on a tax-equivalent basis. The assumed tax rate was 34% in 1990, 1989 and 1988; 40% in .37; and 46% in 1986. Loan balances include non-performing loans; such inclusion has the effect of reducing the .rage rates earned on the Company's loan portfolio.

Comparative Average Balance Sheets with Resultant Interest and Rates

	1990			1989		
	Average Balance	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance	Interest Income/ Expense	Aver Rate Earn Pai
Assets						
Interest earning assets:						
Taxable loans (net of unearned income)	$ 2,850,316	$301,404	10.57%	$ 2,712,423	$306,053	11.28
Tax-exempt loans	124,159	16,138	13.00	137,658	18,804	13.66
Taxable investment securities	285,567	24,720	8.66	270,455	23,199	8.58
Tax-exempt investment securities	185,142	16,850	9.10	150,283	13,997	9.31
Interest bearing deposits	2,959	242	8.18	4,509	425	9.43
Federal funds sold and securities purchased subject to resale	124,679	10,044	8.06	21,751	1,857	8.54
Total interest earning assets	3,572,822	369,398	10.34	3,297,079	364,335	11.05
Allowance for possible loan losses	(50,259)			(30,941)		
Non-earning assets	517,450			480,202		
Total Assets	$ 4,040,013			$ 3,746,340		
Liabilities and Shareholders' Equity						
Demand deposits	$ 912,663			$ 875,814		
Interest bearing liabilities:						
Domestic time deposits:						
Savings deposits	1,518,103	89,150	5.87	1,324,610	76,728	5.79
Time deposits	1,119,331	88,739	7.93	1,025,212	87,785	8.56
Foreign time deposits	2,956	240	8.12	4,509	422	9.36
Short-term borrowings	206,869	16,225	7.84	249,302	22,743	9.12
Total interest bearing liabilities	2,847,259	194,354	6.83	2,603,633	187,678	7.21
Total deposits and borrowings	3,759,922			3,479,447		
Other liabilities	57,606			57,398		
Shareholders' equity	222,485			209,495		
Total Liabilities and Shareholders' Equity	$ 4,040,013			$ 3,746,340		
Net interest spread		$175,044	3.51%		$176,657	3.84%
Net yield on interest earning assets			4.90%			5.36%
Tax-equivalent adjustments:						
Loans		$ 5,487			$ 6,393	
Investment securities		5,729			4,759	
Total		$ 11,216			$ 11,152	

1988			1987			1986		
Average Balance	*Interest Income/ Expense*	*Average Rates Earned/ Paid*	*Average Balance*	*Interest Income/ Expense*	*Average Rates Earned/ Paid*	*Average Balance*	*Interest Income/ Expense*	*Average Rates Earned/ Paid*
2,379,232	$ 251,424	10.57%	$ 1,837,635	$ 184,173	10.02%	$ 1,282,108	$ 135,485	10.57%
152,831	18,980	12.42	165,874	21,065	12.70	170,467	23,878	14.01
269,876	22,068	8.18	251,399	21,515	8.56	212,091	21,325	10.05
123,950	10,867	8.77	127,765	11,968	9.37	149,670	15,667	10.47
3,391	263	7.76	7,416	477	6.43	36,413	2,562	7.04
20,912	1,434	6.86	28,233	1,872	6.63	84,501	5,561	6.58
2,950,192	305,036	10.34	2,418,322	241,070	9.97	1,935,250	204,478	10.57
(26,569)			(20,578)			(15,617)		
435,487			384,592			335,432		
3,359,110			$ 2,782,336			$ 2,255,065		
813,307			$ 735,681			$ 621,802		
1,330,050	72,384	5.44	1,151,366	60,011	5.21	840,057	42,506	5.06
801,829	57,716	7.20	549,399	35,391	6.44	434,252	30,788	7.09
3,391	253	7.46	3,447	216	6.27	3,795	243	6.40
184,650	14,013	7.59	154,986	10,079	6.50	190,790	12,414	6.51
2,319,920	144,366	6.22	1,859,198	105,697	5.69	1,468,894	85,951	5.85
3,133,227			2,594,879			2,090,696		
48,130			35,635			36,714		
177,753			151,822			127,655		
3,359,110			$ 2,782,336			$ 2,255,065		
	$ 160,670	4.12%		$ 135,373	4.28%		$118,527	4.72%
		5.45%			5.60%			6.12%
	$ 6,453			$ 8,426			$ 10,984	
	3,695			4,787			7,207	
	$ 10,148			$ 13,213			$ 18,191	

Net interest income may also be analyzed by segregating the volume and rate components of interest income and inter expense. The following table presents an analysis of volume and rate changes in net interest income. For purposes of tl table (which is presented on a tax-equivalent basis), changes are allocated to such categories based on the respective percentage changes in average balances and average rates. Changes which are not specifically identifiable are allocated on a weighted average basis between volume and rate. Dollar amounts are in thousands of dollars.

	1990 versus 1989			*1989 versus 1988*		
	Increase (Decrease) Due to Change in		*Total*	*Increase (Decrease) Due to Change in*		*Total*
	Average Volume	*Average Rate*	*Increase (Decrease)*	*Average Volume*	*Average Rate*	*Increase (Decreas*
Interest income:						
Taxable loans (net of unearned income)	$ 14,581	$(19,230)	$ (4,649)	$ 37,595	$ 17,034	$ 54,62
Tax-exempt loans	(1,755)	(911)	(2,666)	(2,073)	1,897	(17
Taxable investment securities	1,308	213	1,521	50	1,081	1,131
Tax-exempt investment securities	3,173	(320)	2,853	2,453	677	3,13
Interest bearing deposits	(127)	(56)	(183)	105	57	16
Federal funds sold and securities purchased subject to resale	8,292	(105)	8,187	72	351	42
Total interest income	25,472	(20,409)	5,063	38,202	21,097	59,29
Interest expense:						
Domestic time deposits :						
Savings deposits	11,363	1,059	12,422	(315)	4,659	4,344
Time deposits	7,462	(6,508)	954	19,127	10,942	30,06
Foreign time deposits	(126)	(56)	(182)	105	64	16
Short-term borrowings	(3,328)	(3,190)	(6,518)	5,898	2,832	8,73
Total interest expense	15,371	(8,695)	6,676	24,815	18,497	43,31
Net interest income	$ 10,101	$(11,714)	$ (1,613)	$ 13,387	$ 2,600	$ 15,987

1988 versus 1987			1987 versus 1986		
Increase (Decrease) Due to Change in		Total	Increase (Decrease) Due to Change in		Total
Average Volume	Average Rate	Increase (Decrease)	Average Volume	Average Rate	Increase (Decrease)
57,233	$ 10,018	$ 67,251	$ 55,676	$ (6,988)	$ 48,688
(1,620)	(465)	(2,085)	(583)	(2,230)	(2,813)
1,511	(958)	553	3,364	(3,174)	190
(334)	(767)	(1,101)	(2,052)	(1,647)	(3,699)
(312)	98	(214)	(1,865)	(220)	(2,085)
(502)	64	(438)	(3,731)	42	(3,689)
55,976	7,990	63,966	50,809	(14,217)	36,592
9,724	2,649	12,373	16,226	1,279	17,505
18,170	4,155	22,325	7,418	(2,815)	4,603
(4)	41	37	(22)	(5)	(27)
2,251	1,683	3,934	(2,328)	(7)	(2,335)
30,141	8,528	38,669	21,294	(1,548)	19,746
25,835	$ (538)	$ 25,297	$ 29,515	$ (12,669)	$ 16,846

Net Interest Income

The components of net interest income (presented on a tax equivalent basis) for each of the past three years were as follows:

	Years Ended December 31,			Change from Prior Year			
				1990		1989	
	1990	1989	1988	Amount	Percent	Amount	Percei
	(Dollars in Thousands)						
Interest income	$369,398	$ 364,335	$ 305,036	$ 5,063	1.4%	$ 59,299	19.4%
Interest expense	194,354	187,678	144,366	6,676	3.6%	43,312	30.0%
Net interest income	$175,044	$ 176,657	$ 160,670	$ (1,613)	(0.9%)	$ 15,987	10.0%

Net interest income is the interest and fees earned on assets (primarily loans and investments), less the interest paid on deposits and borrowed funds. To place all interest data in this discussion on a comparable basis, interest income has been stated on a tax equivalent basis. Tax exempt interest income is adjusted by an amount equivalent to the Federal income taxes that would have been paid had the underlying loans or securities been fully taxable.

Interest income increased by $5.1 million or 1.4 % during 1990. While the average volume of loans increased by $124. million, interest earned on the Company's loan portfolio decreased by $7.3 million. This decline primarily reflects an increase in non-accruing loans occasioned by a softening economy and deterioration in the condition of certain borrowers, as well as a decreased average yield on performing loans. Diminished interest income from the loan portfolio was offset primarily by volume increases in the Company's investment portfolio and in Federal Funds Sold and Securities Purchased Subject to Resale. During 1990, average investment securities and average Federal Funds Sold and Securitie Purchased Subject to Resale increased by $50.0 million and $102.9 million, respectively, and were funded primarily by increased deposits.

The increase in interest income was offset by a $6.7 million, or 3.6%, increase in interest expense during 1990. The increase in interest expense occurred during a period of general declines in market rates of interest and reflected volume increases in deposits required to fund the above-mentioned increase in average interest earning assets. Total average deposits increased 10% from a year ago. The Company continues to generate sizeable amounts of demand and savings deposits in relation to its mix of total deposits. At year-end 1990, demand deposits were 28% of total deposits while cor deposits (savings and checking) were 73% of total deposits. The Company, by management design, reduced the amount of time deposits in excess of $100,000 by more than 37% as compared with year-end 1989.

The Company was able to reduce its need for short-term borrowings during 1990, in large part as a result of the Company's improved earning assets and deposit liquidity. At times during 1990, the Company accommodated its correspondent banks by purchasing their excess funds and arbitraging them in the Federal Funds market.

The Company's net interest spread declined by 33 basis points in 1990, primarily as a result of the amount of interest foregone on non-accrual loans. Had the Company's non-accrual loans been fully performing throughout 1990, the Company would have recognized an additional $14.7 million in interest income (as opposed to $5.4 million in 1989). In the aggregate, the net interest margin (i.e., net interest income, calculated on a tax equivalent basis, as a percentage of average earning assets) declined 46 basis points to 4.90% in 1990. While the margin is not at the levels previously achieved by the Company, management believes that the Company's margin compares favorably to peer group institutions.

The $16.0 million increase in net interest income from 1988 to 1989 resulted primarily from increases in loan volume. This was attributable, for the most part, to expanded customer demand and the Company's promotional campaigns primarily directed toward consumer loans. Average loans (excluding tax-exempt financing) increased by $333.2 million, or 14.0%, from 1988 to 1989, attributable in large part to increases in real estate mortgages and consumer loans. The expansion in the loan portfolio was funded primarily by a $217.9 million increase in average savings and time deposits, a $62.5 million increase in average demand deposits and a $64.7 million increase in average short-term borrowings. The Company's net interest margin declined by 9 basis points, reflecting a decreasing spread, a more expensive mix of funding sources and an increase in non-accruing loans during 1989.

n-Interest Income

following table reflects the components of non-interest income for the past three years:

	Years Ended December 31, 1990	1989 (In Thousands)	1988
st income	$ 3,309	$ 3,000	$ 2,300
ice charges on deposit accounts	19,663	17,049	14,748
rnational fees and commissions	4,274	4,566	4,073
er income	6,088	7,831	5,048
Total	$ 33,334	$ 32,446	$ 26,169

e income products are an essential element in the Company's overall plan to optimize financial performance. The r-to-year comparison continues to show improvement in the contribution of such income to bottom-line results. ome from the Trust Department, which offers a full-range of fiduciary services, such as trust and estate administra- n, investment management and advisory services, employee benefit, custody and corporate accounts services, im- ved by 10.3% in 1990. This was achieved primarily by having a larger portfolio of trust assets under management. posit account service fees also increased over prior years. This increase reflects both the expansion of the customer e and selective repricing of existing services to ensure on-going profitability of each service. International fees de- ised, due to a lessening demand for these services, reflecting the overall slow-down in the economy.

989, the Other income category included a $2.5 million non-recurring gain related to the Company's relinquishing nterest in the right to purchase credit card accounts. Excluding this gain, there was a $757,000 improvement in er income in 1990 compared to 1989, primarily attributable to growth in the Company's Financial Services Unit. entity provides specialized services, such as lock box, cash management, automated reconcilements, etc., for corpo- clients, governmental units and financial institutions.

989 and 1988, non-interest income grew $6.3 million or 24.0% and $5.5 million or 26.5%, respectively. The in- se in trust income during the periods primarily reflects increased trust assets under management and increases in the tructure. Growth in these periods in both service charges on deposit accounts and international fees and commis- s can, in large part, be ascribed to aggressive marketing of additional services to corporations and consumers, to- er with repricing of certain existing services.

Non-Interest Expense

The following table reflects the components of non-interest expense for the past three years:

	1990	1989	1988
	Years Ended December 31, (In Thousands)		
Salaries and employee benefits	$ 67,957	$ 72,008	$ 58,537
Net occupancy expense	17,338	14,105	11,626
Equipment expense	10,315	9,702	8,204
Other expenses	37,388	32,841	30,416
Total	$132,998	$ 128,656	$ 108,783

The narrowing of the interest margin has also led management to increase its efforts to contain the growth of non-interest expense in order to achieve earnings objectives. Salaries and employee benefits, the largest element of non-interest expenses, decreased 5.6% from 1989's level. The decline was primarily attributable to the elimination of certain executive compensation and bonus payments, coupled with a reduction of staffing levels achieved mainly through attrition. The increase in net occupancy expense included a charge of approximately $1.6 million for the lease expense related to certain properties that will be abandoned in 1991 upon relocation to the new corporate headquarters discussed below. See Note 10 of Notes to Consolidated Financial Statements. The expansion of the branch franchise to 115 sites at year end 1990 and the upgrading of other existing facilities accounted for the remainder of the increase in net occupancy expense.

The aforementioned downturn in the real estate market has allowed the Company to purchase its new administrative facility - a 172,000 square foot office building located on a 30 acre tract on Garret Mountain in West Paterson - at a price which will produce occupancy costs that are comparable to, if not less than, the Company's current occupancy costs, while increasing the Company's administrative space by more than 40%. The Company expects to consolidate all of its operating divisions at this new location by the second half of 1991 and anticipates that efficiencies should occur when the Company's entire management team is located in one facility.

Other operating expenses increased by $4.5 million in 1990, primarily as a result of increased assessments for FDIC insurance, re-appraisals performed to evaluate the adequacy of loan collateral, revaluations of Other Real Estate, and legal expenses associated with the increased volume of loan foreclosures, loan workouts and applicable collection efforts. In addition, normal increases in postage, utilities and stationary and printing costs affected the total amount of other operating expenses incurred. The increase in FDIC deposit insurance premiums reflects higher levels of deposits and higher premium rates. Effective January 1, 1991, the FDIC increased by 62.5% the rate that it charges commercial banks for deposit insurance. As a result of this premium increase, as well as potentially higher levels of deposits, future deposit expenses are expected to be higher than those previously incurred. It is likely that deposit insurance premiums will be further increased in 1991. There also may be special additional assessments which could have an adverse impact on the Company's results of operations.

Cost containment measures instituted in 1990, such as the deferral of officer salary increases, opening fewer new branches under the Company's De-Novo expansion campaign and elimination of certain executive compensation bonuses, should positively impact 1991 results. In addition, management intends to carefully scrutinize all capital expenditures in order to conserve capital and to explore further avenues for improving operational efficiencies.

As discussed in Note 9 of the Notes to Consolidated Financial Statements, the Financial Accounting Standards Board issued in December 1990, Financial Accounting Standard No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FASB 106"). FASB 106 would require the Company to accrue for the cost of postretirement benefits, primarily medical, dental and life insurance. At this time, management has not determined the impact FASB 106 will have on future results of operations.

1988 to 1989 increases in salaries and employee benefits reflected standard and merit salary increases and additional ts for fringe benefits, primarily health benefits. The increase in branch offices, from 96 offices at January 1, 1988 to offices at December 31, 1989, together with the upgrading of facilities were the primary factors in the increases in upancy expense and equipment expense. Other operating expenses increased from $30.4 million in 1988 to $32.8 ion in 1989, primarily reflecting increases in insurance (including FDIC), legal, postage, telephone and stationary printing costs.

vision for Possible Loan Losses

determination of an appropriate level of the Allowance for Possible Loan Losses is based upon an analysis of the s inherent in the Company's loan portfolio. The analysis is performed on a continuous basis by account officers, ous loan committees, and the Bank's Loan Review Department. A risk rating system has been established as an lytical tool, consisting of eight loan grading categories. In assigning a rating to a given loan, various factors are ghted, including: (a) the financial status and past credit history of the borrower; (b) available collateral, its valuation degree of support; (c) documentation of the loan; and (d) concentrations within an industry, geographic locale, or ateral type.

onjuction with the review of loans and the loan portfolio, the Loan Review Department performs a quarterly analysis ie adequacy of the Allowance for Possible Loan Losses for the Board of Directors. This analysis consists primarily of uating the potential risk to loss on all loans in excess of $1 million and applying risk to loss ratios derived from this ew to the less significant credits. Management determines the adequacy of the allowance based on a credit review of loan portfolio that analyzes potential charges to the allowance, past and expected loan loss experience, prevailing and cipated economic conditions, the financial condition of the borrowers, adequacy of collateral, and other factors ch are relevent to the collectibility of loans. Appropriate recommendations are then made to the Board of Directors rding the amount of the monthly charge against earnings (i.e., the Provision for Possible Loan Losses) for the subse- nt quarter, in order to maintain the Allowance for Possible Loan Losses(the Allowance) at an adequate level. The wance is increased by the amount of such Provisions and by the amount of loan recoveries, and is decreased by the unt of loan charge-offs.

ing 1990, the New Jersey real estate market deteriorated and the regional economy softened, both to a substantial ee. These shifts dramatically and adversely impacted the financial health of borrowers (including, but certainly not ted to, borrowers of the Company) and the value of collateral underlying their loans. As detailed elsewhere in this rt, the weaknesses in the real estate market and in the general economic climate resulted in significant increases in volume of the Company's non-performing assets and net charge-offs.

d upon the factors described above, and in response to the continuing downturn in the real estate market and lting increase in non-performing loans, the Company recorded an aggregate Provision for Possible Loan Losses of .5 million during 1990, bringing the Allowance for Possible Loan Losses to $74.3 million (2.56% of total loans) at ember 31, 1990. Management believes that at this level, the allowance is adequate to absorb such additional losses may arise in the loan portfolio, although no assurances can be given that the Company will not sustain losses in any n year which could be substantial in relation to the size of, or exceed, the Company's Allowance. The Provision rded in 1990 far exceeded the amounts of the Provision charged to earnings in 1989 ($6.3 million) and 1988 ($8.3 on) and was the primary factor in the substantial decline in the Company's net income for 1990. The earnings rage (pre-tax earnings plus the Provision for Possible Loan Losses) was 2.2 times net charge-offs in 1990 and 18.6 s net charge-offs in 1989.

me Taxes

Company recognized an income tax benefit of $9.8 million in 1990 which compares to an $18 million provision for me tax expense in 1989. The $27.8 million change in income tax expense (benefit) is due to a $70.3 million reduc- in pre-tax income. Such loss, coupled with the effect of tax exempt income from loans and other investments, led the Company to recognize such $9.8 million benefit by carrying back the pre-tax loss to years in which the pany provided for applicable taxes at a statutory rate which was greater than the tax rate in effect for 1990. In 1989 1988, the effective Federal income tax rate was approximately 29% and 30%, respectively. These rates were lower statuatory rates due to the effect of tax exempt income from certain loans and investments. For additional informa- regarding income tax matters, see Notes 1 and 8 of the Notes to Consolidated Financial Statements.

ASSET QUALITY

Loans

Loans continue to be the most significant component of the Company's earning assets. Inherent within lending is the evaluation and acceptance of credit and interest rate risk and the opportunity costs of alternative deployment of assets. fundamental purpose and responsibility of a financial institution is to accept deposits and provide funds primarily in the form of loans to meet the needs of the communities it serves and to maximize shareholder value. To satisfy these objectives, lending risks must be managed to provide suitable interest income from the loan portfolio without impairing the Company's financial condition. This can be accomplished by adhering to well-defined credit and underwriting policies, utilizing effective and timely loan review practices, employing sound internal control procedures, diversifying the portfc lio and setting loan reserves in light of economic conditions in the region.

The following table sets forth the classification of the Company's loans by major category as of December 31, for each (the last five years:

	1990	1989	1988	1987	1986
			(In Thousands)		
Commercial and Industrial	$ 518,836	$ 580,000	$ 510,259	$ 465,822	$ 354,058
Real Estate – Residential	1,010,502	979,990	910,164	748,474	536,872
Commercial	830,641	805,810	759,873	601,509	435,928
Construction	202,151	285,755	273,529	188,944	106,069
Consumer	206,626	182,417	154,832	160,506	164,186
Obligations of States and Political Subdivisions	120,304	133,724	142,522	157,693	177,235
Other	12,793	13,769	17,838	12,854	13,383
Total Loans	2,901,853	2,981,465	2,769,017	2,335,802	1,787,731
Less: Unearned Income	(14,119)	(15,429)	(11,992)	(11,384)	(7,848)
Allowance for Possible Loan Losses	(74,347)	(31,683)	(29,112)	(23,610)	(17,874)
Net Loans	$ 2,813,387	$ 2,934,353	$ 2,727,913	$ 2,300,808	$ 1,762,009

The economy in New Jersey is relatively broad-based and the Company's loan portfolio reflects the diversity of the State. Loans to retail customers in the Company's marketplace accounted for approximately 42% of total loans at December 31, 1990. The remainder of the portfolio is predominantly commercial real estate loans, commercial loans and loans to States and political subdivisions made primarily to foster commercial development. Commercial lending activities are focused primarily on lending to middle market corporate borrowers with sales in the range of $1 million to $25 million, engaged in a variety of businesses. As a result of its goal to approach lending in a conservative manner, the Company typically does not finance highly leveraged transactions (HLT's) or speculative office building construction and does not make foreign loans, thereby avoiding certain of the high risk lending that has plagued other financial institutions.

Total loans were $2.9 billion at December 31, 1990, decreasing $79.6 million from the prior year-end. Retail loans - residential real estate mortgage loans and consumer loans - increased by $54.7 million or 4.7%. This growth was offset by decreases in real estate construction loans and commercial loans.

While there has been growth, other than in construction loans, in the real estate portfolio, the Company is investigating the securitization and possible sale in the secondary market of segments of its real estate portfolio. This will allow the Company to address the credit needs of its customers, and, at the same time, limit risk, reduce its percentage of loans secured by real estate, and preserve capital. In 1990, approximately $53.0 million of residential real estate loans were securitized.

..ak economy, with the attendant overall decline in demand for quality loans, loan run-off and increased loan charge-...ontributed to the $61.2 million or 10.5% decline in commercial and industrial loans.

.. majority of the Company's construction loans as of December 31, 1990 were for single family and residential tracts. ..outstanding balance in the construction loan category declined $83.6 million or 29.3% from a year ago.

..h regard to consumer loans, the portfolio was similarly impacted by the economic slowdown but to a lesser degree. ..Company seeks to reduce its exposure by limiting the extent to which its loan portfolio includes dealer floor plans, ..rect consumer paper and lease financing. In addition, the Company does not maintain a credit card portfolio. The ..ve mentioned items are traditionally the areas where financial institutions incur higher percentages of losses in their ..sumer loan portfolios.

..measure of credit risk is the extent to which a financial institution's loans have ceased to perform in accordance ..h the terms initially agreed upon by the institution and its borrowers. The following table sets forth certain informa..n regarding non-accrual loans, renegotiated loans, other real estate and past due loans as of December 31st for each of .. last five years:

	1990	1989	1988	1987	1986
..k *Elements:*			*(In Thousands)*		
..n-Accrual Loans (A)	$ 92,101	$ 48,380	$ 11,774	$ 11,063	$ 4,392
..negotiated Loans (excluding amounts classified as Non-Accrual) (B)	7,269	1,869	—	—	—
..her Real Estate (C)	60,021	746	883	491	327
Total Non-Performing Assets	$159,391	$ 50,995	$ 12,657	$ 11,554	$ 4,719
..t Due Loans (D)	$ 16,807	$ 26,293	$ 22,021	$ 9,137	$ 9,758

A. Generally represents those commercial and real estate loans as to which management has determined that the borrowers may be unable to meet contractual principal and/or interest obligations or where interest or principal is in arrears for a period of more than 90 days. Current policy requires that interest previously accrued on these loans and not yet paid be reversed and charged against income during the current period. Interest earned thereafter is only included in income to the extent that it is received.

B. Generally represents loans characterized as "troubled debt", as defined in Statement of Accounting Standards No. 15, "Accounting by Debtors and Creditors for Trouble Debt Restructuring". The Company did not have any loans classified as "troubled debt" at December 31,1988,1987 or 1986.

C. Other real estate includes loan collateral that has been formally repossessed and loan collateral that has been substantially repossessed, that is when the primary risks and rewards of ownership of the collateral have passed from the debtor to the lender, based upon certain pre-defined criteria.

D. Primarily represents those commercial and real estate loans on which payments of interest or principal are contractually past due 90 days or more but which are currently accruing income at the contractually stated rates, based on a determination that such loans are believed to be fully collectible and adequately secured. Generally, consumer loans are charged off if the credit is in arrears for more than 90 days.

..amount of non-accrual loans increased substantially in 1990, resulting primarily from the economic downturn, ..cially in the real estate sector, and general deterioration in certain credits. At December 31, 1990, $71.4 million or ..5% of the Company's total non-accrual loans were real estate related credits. Of this amount, $45.3 million were ..mercial related real estate loans; $ 19.6 million were residential loans; and $6.5 million were construction type loans. ..he total real estate related non-accrual loans, only 10 had balances in excess of $ 1 million; the largest single credit .. $4.9 million. There were approximately $18.8 million of non-accrual commercial and industrial loans and approxi..ely $1.9 million in non-accrual loans to individuals for consumer purposes.

..deterioration in the real estate markets and in the general financial condition of certain of the Company's borrowers increased the vulnerability of several of the Company's loans and its underlying collateral base. Since the economic ..ook for the near future is not encouraging, especially for the real estate sector, the Company anticipates that non-..ual loans could continue to increase in 1991. Such an increase would adversely impact operating income.

With respect to substantially all of the loans categorized as renegotiated loans in the previously set forth risk element table, the restructuring did not involve a concession of principal amounts or a reduction in interest rates below prevailing market rates for similar loans, but rather involved extensions of time to make repayments or other concessions. Loans categorized as renegotiated loans in the table do not include those loans which, subsequent to restructuring, have become non-accrual loans or accruing loans past due 90 days or more. The $5.4 million increase in renegotiated loans from year-end 1989 to year-end 1990 reflects the impact of deteriorating economic conditions in the region on specific borrowers that required renegotiation of their loans. At December 31, 1990, the majority of renegotiated loans were for commercial and industrial loans.

Included in the total of non-performing assets, the Company had $60 million of Other Real Estate at December 31, 1990. These are properties which have been foreclosed on or have been substantially foreclosed (see Note 1 of the Notes to Consolidated Financial Statements). One year ago there was only $746,000 in these categories. The majority of the balance in this category consists of commercial real estate and construction and development loans. There are 14 properties with carrying values in excess of $1 million. The five largest properties comprise 47% of the total in this category. Again, current economic factors will likely impair the timely saleability of these properties. In 1990, the Company incurred approximately $1.3 million in expenses involved with maintaining these properties and valuation adjustments required thereto. Such adjustments are made when the carrying value of the property exceeds the appraised value. Appraisals are obtained periodically (at a minimum, annually). Management anticipates that as a result of the weakened business and real estate climate, the level of properties classified as Other Real Estate probably will continue to increase in 1991. Accordingly, the Company anticipates further expenses associated with maintaining Other Real Estate, and further write downs to adjust carrying values to declining market values.

Loans past due 90 days or more but still accruing interest ("past due loans") decreased by $9.5 million from December 31, 1989, to December 31, 1990. To a large extent, this decrease reflects a change in the condition of specific borrower during 1990. As economic conditions worsened and the financial position of borrowers deteriorated, certain borrowers were no longer able to satisfy the conditions necessary for the Company to continue the accrual of interest income. As a result, several loans categorized as past due loans as of December 31, 1989 became non-accrual loans during 1990.

Asset quality is also reflected in a financial institution's charge-off experience. The following table presents information reflecting the Company's charge-off and recovery experience and the inter-relationship of such experience, the level of the Company's Allowance for Possible Loan Losses and the charges taken against earnings to replenish the Allowance:

	1990	1989	1988	1987	1986
	(In Thousands)				
Balance of Allowance at Beginning of Year	$ 31,683	$ 29,112	$ 23,610	$ 17,874	$ 14,224
Charge-Offs:					
Commercial and Industrial	9,465	3,420	2,555	1,747	2,851
Consumer	3,460	1,160	1,523	1,230	930
Loans Secured by Real Estate	18,430	204	—	—	—
Total Charge-Offs	31,355	4,784	4,078	2,977	3,781
Recoveries:					
Commercial and Industrial	1,919	637	752	590	1,500
Consumer	550	418	503	523	281
Loans Secured by Real Estate	50	—	—	—	—
Total Recoveries	2,519	1,055	1,255	1,113	1,781
Net Charge-Offs	28,836	3,729	2,823	1,864	2,000
Provision for Possible Loan Losses	71,500	6,300	8,325	7,600	5,650
Balance of Allowance at End of Year	$ 74,347	$ 31,683	$ 29,112	$ 23,610	$ 17,874
Ratio of Net Charge-Offs to Average Loans Outstanding	0.96%	0.13%	0.11%	0.09%	0.14%
Balance of Allowance at Year End as a Percent of Year-End Loans	2.56%	1.06%	1.05%	1.01%	1.00%

ans are typically charged-off when they are identified by management or classified by the Bank's Loan Review Department or by regulatory authorities as "loss". Charge-offs of particular commercial and real estate loans are made after the specific loan has been reviewed. Partial charge-offs are made to recognize the effect of declining collateral values, based on independent appraisals, as compared to the carrying value of the loan. Generally, consumer loans are charged-off if credit is in arrears for more than 90 days. The Company's net charge-offs increased by $25.1 million in 1990. Its net charge-offs as a percentage of average loans outstanding increased by 83 basis points in 1990. The increase in net charge-offs during 1990 primarily reflect the above mentioned deterioration within the real estate sector, the weakened condition of the regional economy, a recognition of changes in bank regulatory examination and classification procedures and management's judgement regarding specific loans within the loan portfolio.

The Company establishes its Allowance for Possible Loan Losses as a general allowance applicable to future losses throughout its loan portfolio, and, for internal operating purposes, does not allocate the allowance among specific loan classifications. The deterioration of the region's economy, particularly in the real estate sector, will likely result in charge-off levels in 1991 greater than in years prior to 1990.

Investment Securities

In management's opinion, the Company's investments are diversified. There are no concentrations of securities and the total portfolio had a net unrealized gain of $3,370,000 or .64% in 1990 compared to a net unrealized loss of $182,000 or .04% in 1989. The Company does not have and does not intend to engage in any investment trading activities. The securities in the portfolio are usually held to maturity or call. Based upon analysis of the portfolio, management does not expect future yields to be materially different than historic average yields. As tax exempt securities matured in 1990, the Company, as part of its tax planning strategy, primarily reinvested the funds in taxable securities. There were no material sales out of the investment portfolio for the three year period ended December 31, 1990.

The following table sets forth the book value of the Company's securities as of December 31, for each of the last three years:

	1990	*1989*	*1988*
		(In Thousands)	
U.S. Treasury Securities	$ 44,733	$ 69,381	$ 84,820
Obligations of U.S. Government Agencies (a)	268,513	174,946	146,754
Obligations of States and Political Subdivisions	151,796	183,505	134,527
Other Securities (Principally Corporate Taxable Bonds)	58,739	20,857	34,633
Total	$ 523,781	$ 448,689	$ 400,734

(a) Includes Mortgage Backed Securities

For additional information regarding the Company's investment securities portfolio as of December 31, 1990 and 1989, see Note 3 of the Notes to Consolidated Financial Statements.

Off Balance Sheet Risk

The Company has extended various commitments relating to financial instruments used in the normal course of business, primarily loan commitments and commercial and standby letters of credit. For additional information regarding the Company's commitments with off-balance sheet risk, see Note 10 of the Notes to Consolidated Financial Statements.

As a matter of policy, the Company does not engage in some of the more speculative types of off-balance sheet transactions, such as interest rate hedges, interest rate swaps, future and forward contracts, and interest rate cap and floor agreements.

LIQUIDITY AND INTEREST RATE SENSITIVITY

Liquidity reflects the Company's ability to maintain sufficient sources of funds to meet all requirements, including demand for new loans, deposit withdrawals and maturing liabilities. The Company manages current and future liquidity requirements, as well as interest rate sensitivity, through its Asset and Liability Management Committee (ALCO). The liquidity required to fund the needs of the Company's customers arises in part from the conversion of readily marketable assets to cash, the receipt of loan payments, and maturing earning assets. Liquidity from liabilities is generated by "core deposit" growth. Core deposits do not require significant amounts of liquidity to support the net short or immediate term demand of customers. At December 31, 1990, "core deposits" represented 73% of total deposits; at year end 1989 and 1988 the percentages were 69% and 74%, respectively. In addition, the Company has established lines of credit with the Federal Reserve Bank, correspondent banks, and other funding sources which further support and enhance its liquidity position.

The softening economic conditions in the region may reduce sources of funding for financial institutions. However, the Company has historically demonstrated the ability to generate new sources and increased volumes of low cost funds. In 1990, the Company securitized approximately $53 million of residential real estate loans which may be sold in the secondary markets.

Interest rate sensitivity is related to liquidity in that each is affected by maturing assets and sources of funds. Interest rate sensitivity, however, also reflects the fact that certain types of assets and liabilities have rates which are subject to change prior to maturity. If more liabilities than assets reprice in a given time period, a liability sensitive position exists, and market interest rate changes will be reflected more quickly in liability rates. If interest rates decline, such a position will likely benefit net interest income. Alternatively, if assets reprice more quickly than liabilities, an asset sensitive position, a decline in market rates will likely adversely affect net interest income. By maintaining a balanced interest rate sensitivity position, where interest rate sensitive assets roughly equal interest rate sensitive liabilities in specific time frames, interest rate risk may be minimized.

Management of rate sensitivity and the risk associated with changing interest rates has become increasingly more important in recent years. Management monitors interest rate risk by measuring the potential impact of changing market interest rates. Rate sensitivity is measured by gaps, i.e., the difference between interest sensitive assets and interest sensitive liabilities within specific time periods. A positive or negative gap demonstrates the potential exposure to interest rate fluctuations. The Bank measures its rate sensitivity in time frames of 30 days, 90 days, 180 days, one year and over one year.

: Company completed 1990 with a negative gap, i.e., interest sensitive liabilities exceeded interest sensitive assets on a ıulative basis, in all time horizons through one year The following table illustrates the Company's interest sensitivity as of December 31, 1990:

ɔllars in Thousands)	Assets and Liabilities Maturing in:					
·ning Assets:	1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Yr	Total
estments	$ 56,647	$ 47,779	$ 56,690	$ 78,550	$ 282,869	$ 522,535
ans (Net)	1,374,097	195,594	70,941	81,376	1,165,726	2,887,734
her Earning Assets	70,200	2,000	—	—	—	72,200
Total	$ 1,500,944	$ 245,373	$ 127,631	$ 159,926	$ 1,448,595	$ 3,482,469
·erest Bearing Liabilities:						
·ings Deposits	$ 1,032,271	$ —	$ —	$ —	$ —	$ 1,032,271
ne Deposits	379,936	217,279	183,254	142,538	63,856	986,863
ort Term Borrowings	162,718	1,150	—	1,700	—	165,568
Total	$ 1,574,925	$ 218,429	$ 183,254	$ 144,238	$ 63,856	$ 2,184,702
riod Gap	$ (73,981)	$ 26,944	$ (55,623)	$ 15,688	$ 1,384,739	
mulative Gap	$ (73,981)	$ (47,037)	$ (102,660)	$ (86,972)	$ 1,297,767	

interest sensitivity table is not a complete picture of the impact of interest rate changes on net interest income. First. ınges in the general level of interest rates will not affect all categories of assets and liabilities equally or simulta- ɔusly. Second, the table represents a one-day position: variations occur daily as the Company adjusts its interest sen- ivity throughout the year. Third, assumptions must be made to construct such a table. For example, there are several ·ings products categorized as interest sensitive in the 30 day interval; however they may be adjusted less frequently ın changes in the leading rate indicators. Finally, the re-pricing distribution of interest sensitive assets may not be licative of the liquidity of those assets.

Maturities and Loans Sensitive to Changes in Interest Rates

The following table sets forth certain categories of loans as of December 31, 1990 in terms of maturity and interest rat sensitivity:

	Within 1 Year	*1 to 5 Years*	*After 5 Years*	*Total*
		(In Thousands)		
Commercial and Industrial	$ 296,875	$ 179,704	$ 42,257	$ 518,836
Real Estate – Construction	150,513	51,572	66	202,151
Total	$ 447,388	$ 231,276	$ 42,323	$ 720,987
Loans with Fixed Rates		$ 30,022	$ 3,092	
Loans with Adjustable Rates		201,254	39,231	
Total		$ 231,276	$ 42,323	

Maturities and Average Weighted Yields of Investment Portfolio

The following table sets forth the maturity distribution and weighted average yields (calculated on the basis of the statec yields to maturity, considering applicable premium or discount), on a fully taxable equivalent basis (assuming a 34% Federal income tax rate), of the investment securities held by the Company as of December 31, 1990:

	Within 1 Year	*After 1 Year but Within 5 Years*	*After 5 Years but Within 10 Years*	*After 10 Years*	*Total*
			(Dollars In Thousands)		
U.S. Treasury Securities:					
Book Value	$ 22,559	$ 21,677	$ —	$ 497	$ 44,733
Yield	8.02%	8.74%		8.27%	8.35%
Obilgations of U.S. Government Agencies:(a)					
Book Value	67,931	101,207	—	99,375	268,513
Yield	8.29%	8.10%	—	9.46%	8.65%
Obligations of States and Political Subdivisions:					
Book Value	105,526	30,475	5,945	9,850	151,796
Yield	9.53%	9.47%	8.92%	7.50%	9.36%
Other Securities:					
Book Value	24,690	33,904	145	—	58,739
Yield	8.63%	8.47%	5.50%	—	8.53%
Total Book Value	$ 220,706	$ 187,263	$ 6,090	$109,722	$ 523,781
Total Yield	8.89%	8.46%	8.84%	9.28%	8.82%

(a) Includes Mortgage Backed Securities

posits

e average amounts of various types of deposits for each of the three years ended December 31, are as follows:

	1990	1989	1988
		(In Thousands)	
mand deposits	$ 912,663	$ 875,814	$ 813,307
vings deposits	1,518,103	1,324,610	1,330,050
ne deposits	1,119,331	1,025,211	801,829
reign time deposits	2,956	4,509	3,391
Total	$ 3,553,053	$ 3,230,144	$ 2,948,577

of December 31, 1990, the aggregate amount of outstanding time certificates of deposit issued in amounts of 00,000 or more, broken down by time remaining to maturity, was as follows:

	(In Thousands)
ree months or less	$ 275,352
er three months through six months	17,980
er six months through twelve months	4,818
er twelve months	3,268
tal	$ 301,418

ort Term Borrowings

ort-term borrowings include the following:

	December 31,		
	1990	1989	1988
		(In Thousands)	
leral Funds Purchased:			
ance at Year-End	$ 36,240	$ 83,726	$ 189,409
erage Rate at Year-End	6.07%	8.00%	8.31%
ximum Amount Outstanding at any Month End	$ 103,280	$ 271,397	$ 189,409
erage Amount Outstanding During Year	$ 83,081	$ 149,405	$ 99,625
erage Rate During Year	7.92%	9.37%	7.87%
curities Sold Under Agreements to Repurchase:			
ance at Year-End	$ 128,697	$ 99,322	$ 87,685
erage Rate at Year-End	6.62%	7.97%	8.02%
ximum Amount Outstanding at any Month End	$ 136,823	$ 109,062	$ 108,031
erage Amount Outstanding During Year	$ 123,788	$ 99,632	$ 84,418
erage Rate During Year	7.64%	8.58%	7.04%

erage amounts set forth above are primarily daily averages.

CAPITAL

The Company's bank regulators - the Federal Reserve Board (which regulates bank holding companies) and the Office of the Comptroller of the Currency (which regulates national banks)- have issued new guidelines which classify and define bank capital into the following components: (1) Tier I capital, which includes tangible shareholders' equity for common stock and certain qualifying perpetual preferred stock, and (2) Tier II capital, which includes a portion of the allowance for possible loan losses, certain qualifying long-term debt and preferred stock which does not qualify for Tier I capital. Such regulators have implemented risk-based capital guidelines which require a financial institution to maintain specified levels of capital as a percent of such financial institution's assets and certain off-balance sheet items adjusted for pre-defined credit risk factors (risk-adjusted assets). The regulatory guidelines contain transition rules and final rules which will be fully effective as of December 31, 1992. As of December 31, 1990, a financial institution is required to maintain, at a minimum, Tier I capital as a percent of risk-adjusted assets of 3.625% and combined Tier I and Tier II capital as a percent of risk-adjusted assets of 7.25%. As of December 31,1992, the regulatory minimim Tier I and combined Tier I and II capital ratios will be increased to 4.0% and 8.0%, respectively. As of December 31, 1990, the Company's Tier I and combined Tier I and II capital ratios (computed under the transition guidelines) were 6.97% and 8.49%, respectively.

In addition to the risk-based guidelines discussed above, the Federal Reserve Board's regulations require that a bank holding company which meets the regulator's highest performance and operating standards, maintain a minimum leverage ratio (Tier I capital as a percent of tangible assets) of 3%. For those financial institutions with higher levels of risk or that are experiencing or anticipating significant growth, the minimum leverage ratio will be increased by at least 100 to 200 basis points. During 1990, the Company's Board of Directors adopted a resolution establishing a minimum leverage ratio target of 5%. Minimum leverage ratios for each financial institution will be established and updated through the ongoing regulatory examination process. As of December 31, 1990, the Company had a leverage ratio of 5.22%, which management believes will meet the regulator's required minimum ratio.

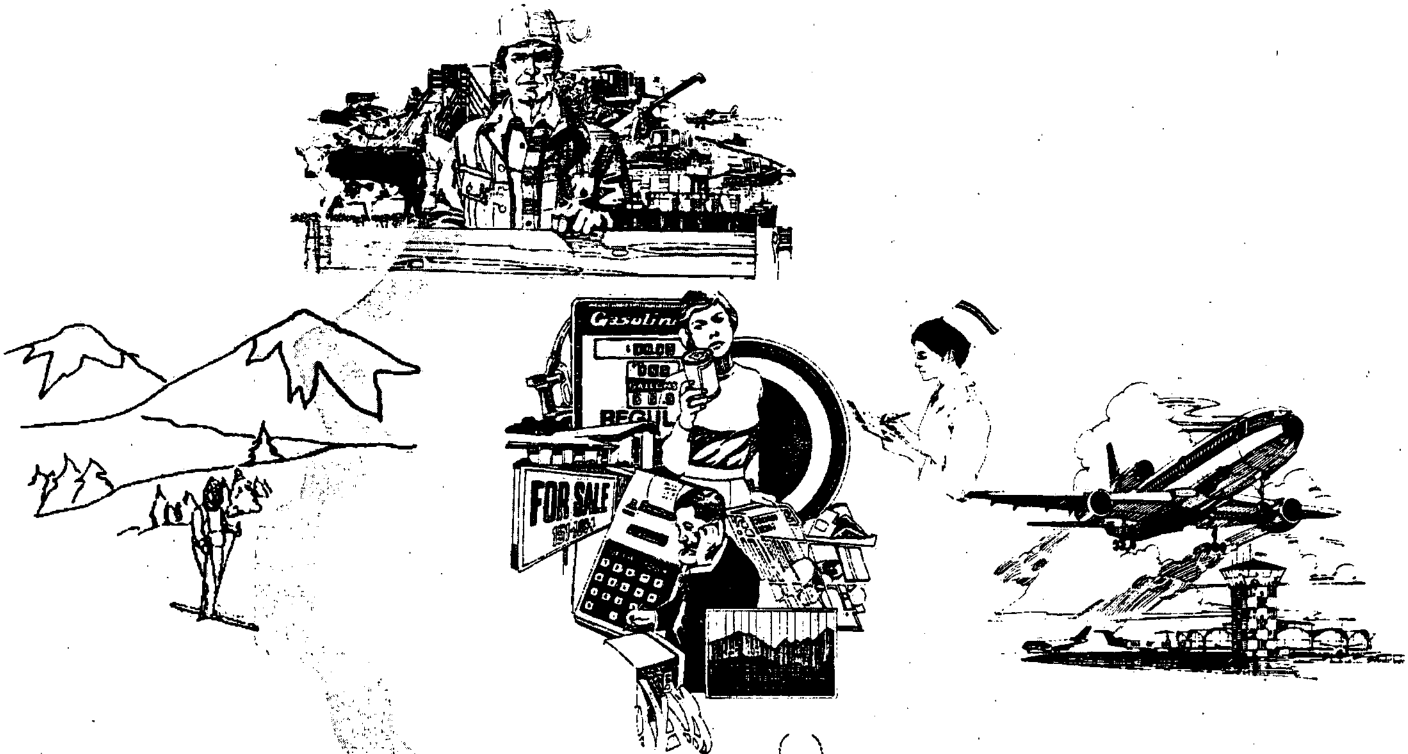
The following table reflects the Company's capital ratios as of December 31, 1990:

Risk Based Capital Ratios

(Dollars in thousands)	*1990 Requirements*		*1992 Requirements*	
Tier I Capital	$ 213,322	6.97%	$ 213,322	6.99%
Tier I Capital minimum requirement	111,078	3.63%	122,091	4.00%
Excess	$ 102,244	3.34%	$ 91,231	2.99%
Combined Tier I and Tier II Capital	$ 259,642	8.49%	$ 251,922	8.25%
Combined Tier I and Tier II Capital minimum requirement	221,849	7.25%	244,181	8.00%
Excess	$ 37,793	1.24%	$ 7,741	0.25%
Weighted-Risk Assets (After Tier II Equity Adjustment)	$ 3,059,986		$ 3,052,266	

Leverage Ratios

(Dollars in thousands)	*Amount*	*Ratio*
Tier I Capital to average quarterly assets	$ 213,322	5.22%
Proposed minimum leverage target	204,206	5.00%
Excess	$ 9,116	0.22%
Average quarterly assets	$ 4,084,127	



"NEW JERSEY'S BANK"
Serving
630,000 Customers
in 13 Counties
and 89 Communities
with
115 Locations
2100 Employees
$4 Billion in Assets
and
$288 Million in
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"We are committed fully to the state of New Jersey and its dynamic people.

We believe in old-fashioned, community banking and long-lasting relationships between the Bank and its friends."